Warren Buffett appeared live on CNBC's Squawk Box Wednesday morning, March 2, 2011 for Ask Warren.

This is a transcript of his comments.

ANNOUNCER: This is a special presentation of *Squawk Box*, a three-hour conversation with the "Oracle of Omaha," Warren Buffett, the wit and wisdom of an investing legend.

BECKY QUICK: Good morning, everybody. Welcome to *Squawk Box* here in CNBC. I'm Becky Quick in Omaha. Joe Kernen and Carl Quintanilla are back at headquarters at CNBC. And we are live this morning in Omaha at the **Durham Museum** in front of a very special store. This is the Ernest Buffett store. Of course, Ernest Buffett is the grandfather of a very famous son of Omaha, Warren Buffett. As always, we have a lot to talk about with him. Warren, it's great to see you this morning.

WARREN BUFFETT (Berkshire Hathaway Chairman and CEO): It's good to have you here.

BECKY: Thanks for coming down and being in front of the store with us.

BUFFETT: Yeah, well, it makes me feel at home.

BECKY: Yeah. This is, again, a mock-up of your grandfather's store where you worked, yourself.

BUFFETT: Yeah, actually this is my great-grandfather's...

BECKY: Your great-grandfather.

BUFFETT: Yeah. Because my grandfather didn't work at this store. But it was originally Sidney Buffett & Sons. And he had two sons that worked with him, Ernest and Frank, and then they fell in love with the same woman who worked in the store. She married one of them, and the other one didn't speak to the guy for 20 years.

BECKY: Which is why it's only the Ernest Buffett store.

BUFFETT: Yeah, that's right. That's right.

BECKY: Well, want to thank you very much for being here and for agreeing to take questions from our viewers today.

BUFFETT: That'll be fun.

BECKY: It will be fun. We have a lot to get to this morning, but before we do, we'd like to get to a few of those hundreds of e-mails. We're going to get to those in just a little bit. First, though, Carl's going to bring us up to speed on what's been happening. He's got the morning's top headlines.

And, Carl, good morning.

CARL QUINTANILLA, co-host: All right. Good morning to you, Beck. It's going to be great.

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QUINTANILLA: But we've got a lot going on this morning, Becky, as you know, and we'll send it back to you in Omaha. Gorgeous live shot this morning, by the way.

BECKY: Oh, thank you very much, Carl. We are again here spending the morning with Warren Buffett and, as we mentioned, we're at the Durham Museum here in Omaha. We're in front of a mock-up of the Ernest Buffett grocery store, which is a store Mr. Buffett knows well. He worked there himself as a youngster. And, Warren, thank you again for being with us this morning.

BUFFETT: Oh, thank you. That was the last time I did any real work, actually.

BECKY: Since then it's gotten a little easier?

BUFFETT: It's much easier. I—the only thing I learned from that store was I didn't like hard work.

BECKY: Well, that's a good way to grow up and a good way to figure things out.

BUFFETT: Yeah.

BECKY: You know, I don't know if you just heard Carl and Joe talking a little bit about the markets and the situation yesterday. Oil prices seemed to have been dictating where the market's been headed for the last week and a half or so. Do you worry about oil prices? Do you worry about what's happening in the Middle East?

BUFFETT: Well, you may worry as a citizen about what's happening, but in terms of our investments, it—no. It doesn't have anything to do with where or Coca-Cola are going to be in five years from now. But I am just no good on day-to-day or week-to-week, month-to-month stock prices and, fortunately, I don't have to be.

BECKY: Yeah. Joe just mentioned that we spoke with someone yesterday who said the oil market's doing exactly what it should be, which is overreacting. He used to run Saudi Aramco, and it's an interesting position. Even though you look at these prices, we've heard from Ben Bernanke and others that this is not something we need to be concerned about yet. Is that where you come in on this?

BUFFETT: Well, I just don't know the answer on that. I mean, that would depend on events in the future. Six months or eight months ago, we weren't worried about cotton prices at Fruit of the Loom and, you know, they've gone from 80, 90 cents to $1.90. So it's—you just don't know about commodities. If they get short and people need them, I mean, we have to make T-shirts and briefs and that sort of thing, and if there isn't enough cotton around in a given month, we buy it regardless of price. And oil is the same way. The demand is pretty inelastic in the short run, so if you get any real interruptions in big supplies of oil—and I know there's excess capacity around—but a big enough interruption could cause a big change in price.

BECKY: We have not seen a significant interruption yet, though.

BUFFETT: Right.

BECKY: The Libyan oil market may be — it's 2 percent of the global supply and maybe about half of that has been cut at one point or another.

BUFFETT: Yeah.

BECKY: And yet you see oil prices running back up above $100. That's where they were trading yesterday in the extended hours.

BUFFETT: Yeah.

BECKY: Is that something that you think is tied to speculation? Is that something that is or could be prevented? Or is this a real supply situation?

BUFFETT: Well, it isn't a real supply situation yet, but markets anticipate.

BECKY: Yeah.

BUFFETT: And if—people are not worried about Libya getting cut off, what they're worried about is that the unrest spreads and that some three or four million barrels a day would get cut off. And that's a rational thing to worry about. What the probability is of it happening, who knows? But it isn't zero, and it looks higher now than it would've looked two months ago, so that starts to get reflected in prices. Markets anticipate.

BECKY: Your annual shareholders letter that you just came out with on Saturday painted a much more optimistic picture of America than many people had been thinking to this point. Why is that? And why are you so positive about things?

BUFFETT: Well, I've been optimistic on America right along, as you know. I mean, I was optimistic when I knew things were going to go to hell. But things do—America gets off the track from time to time, and it was particularly so in the fall of 2008. But you can't stop this country. I mean, we have gone through, I don't know, 15 recessions, you know, world wars, civil war, you name it. And there is a resiliency to the American system. It does work. And it sputters from time to time. It'll sputter from time to time in the future, but you don't want to get too concerned about that. It's kind of like having a bad crop in farming. If you've got some good land here in the Midwest, you're going to have a bad crop occasionally. But you know you're going to have mostly good crops and we have great soil for this country, metaphorically. And it works over time.

BECKY: So what are you seeing in your businesses right now? You said that we're back on track, but are we chugging along? Are we inching a long? How are things coming?

BUFFETT: It's probably closer to inching in most businesses. And in residential construction, it's not inching. It's not going at all. But so you do have this uneven situation. We have a few businesses that are—that are really kind of booming, but—and we have a great many businesses that are moving forward, and then we have some—a few that are stuck. And—but I think that's true of the economy. So—but what we've seen now for almost two years is we've seen it getting better. Rather consistently, but not in a dramatic—at a dramatic pace. And what has been interesting to me is that the sentiment has gone up and down quite a bit during a period when you really haven't seen all that much change in the underlying trend.

BECKY: And in terms of your businesses, you say you have some that are booming. Which ones are those?

BUFFETT: Well, I mentioned the annual report. We've got an electronic component distributorship...

BECKY: Mm-hmm.

BUFFETT: ...in a company called TTI, and they're booming in Asia, they're booming in Europe, and they're booming in this country. And they sell these little things that cost, you know, a couple of pennies. It's like selling jelly beans or something of the sort. But they go to all kinds of customers. And their business has never been this strong. The railroad business has picked up. It's about 60 percent of the way back from the bottom. If you take the top, and car loadings take it down to the bottom, we've got about 60 percent of the way back. So there's a—there's a considerable ways to go there, but it's a different business than it was two years ago. And it gets better by the quarter, as we go along. We see at our machine tools, small little tools that go in big tools, a company called **Iscar**.

BUFFETT: I just got the January figures and January was a record month. And now not by a huge margin, but it just keeps getting better month by month. So—and nobody's buying those to put them in their homes, you know, or for speculation.

BECKY: Right.

BUFFETT: They're buying them because they're using them.

BECKY: When do we see that actually play out in the jobs market? That's been the huge concern. We've got another jobs report that's coming up on Friday.

BUFFETT: Yeah. Our business at Berkshire was quite a bit better in 2010 than 2009, but we only added 3,000 jobs, you know, from 260,000 roughly, on a base. So we added 1 percent to jobs net and yet our business really improved quite a bit more than that.

BECKY: Mm-hmm.

BUFFETT: And there were real gains in productivity achieved on the downside. People, at least when they really had to tighten their belts, they found out they could do it. And I think that period is largely over. I think the gains in business will be much more reflected by gains in employment going from this point forward than they have in the first year and a half or two years of this recovery.

BECKY: Does that mean good news by the end of this year? Or does that mean good news by next year because depending on whose forecast you're watching, the employment number could go down significantly.

BUFFETT: Yeah, yeah.

BECKY: This year, or it might take two years.

BUFFETT: I'm not a—I really don't know the answer on that, but if you ask me just to guess...

BECKY: Mm-hmm.

BUFFETT: ...I would guess that that by the—by close to the election of 2012 that unemployment would be probably in the low 7s.

BECKY: OK.

BUFFETT: And then how good that'll look to people, I don't know at the time. But that would be my guess from what I see in business.

BECKY: You mentioned that the housing businesses that you have are not inching along, they're stuck. You also said, though, in your annual letter that you think housing is at a position where a year from now things might look considerably better. (Treasury Secretary) Tim Geithner was on the Hill yesterday. He said there's still a lot of pain to work out in housing. And you had 9400 employees that you had laid off in those businesses that cater to housing.

BUFFETT: Right.

BECKY: So when do you think it—you can actually start hiring back there?

BUFFETT: Well, we'll hire when housing starts to pick up.

BECKY: Right.

BUFFETT: And they've been now in this 550,000 a year or 600,000 range for quite a while. And they needed to be. The demand for housing comes from household formations. I mean, and household formations are running considerably higher than housing starts. So they are—the excess housing supply is being sopped up. Not at an incredible rate, but at a significant rate. And that's a counterbalance to the fact that we were building two million housing units, you know, and people were—they weren't creating two million families a year at that time. So we were—we were just building too darn many houses. And they don't go away. So the only way to solve that is to underproduce compared to household formations. And we've been doing that for a couple of years, and that's why my guess is that, in about a year, that we will have sopped up the excess supply. Now, that doesn't mean there's not all kinds of people who want to sell their house for what they paid for it five years ago.

BECKY: Mm-hmm. Right, right.

BUFFETT: But that's a whole different question. I think it's—I think it's—I know housing will pick up at some point, and it seems logical to me that it should pick up on about a year based on the—on the number of units that are getting sopped up. And it was—it's a good thing. I mean, we had that one incentive there for a while to try to move housing.

BECKY: A tax break for first-time buyers.

BUFFETT: The real thing to do is clean out the excess inventory, and the only way you clean out excess inventory, you either—you either blow up the houses or you produce fewer than households are getting formed.

BECKY: Mm-hmm.

BUFFETT: And any artificial acceleration of demand, it just means disappointment later on.

BECKY: So you didn't think the government should've made those moves?

BUFFETT: I don't think—yeah, I don't think that trying to move the fourth quarter's demand into the first quarter is a—probably not a good idea. It—we had to clean out the excess.

BECKY: You know, we're just getting to the end of a lot of government programs like that. Not only what we saw with Cash for Clunkers, with the first time hire—buyers tax credit or tax deduction that would go in. You also are getting to the point where QE2 is nearing a point where it's going to end. Now, (Federal Reserve Chairman) Ben Bernanke was on Capitol Hill yesterday, too, and he did not give any indication that they'd be ending QE2 early, but it only goes through June. So what happens to the markets as, you said they're very forward looking, as they come to the recognition that the Treasury's not going to be there, or the Fed's not going to be there to prop up the Treasury market anymore.

BUFFETT: Well, I do not like—I do not like short-term bonds, and I do not like long-term bonds. And if you push me, I'm sure that I don't like intermediate-term bonds either. I just think it's a terrible mistake to buy into fixed dollar investments at these kind of rates, and I've thought so, you know, for several years now. When people ran to cash because they were afraid of everything, they were really going to the worst investment, you know, that's possible. I don't know what'll happen with Treasury markets, but we have had—I don't think people necessarily realize we've had monetary policy with its foot to the floor for a couple of years.

BECKY: Mm-hmm.

BUFFETT: And we needed that to get out of where we were. How long we need it for is another question. But the idea of overdosing the patient two years ago was a terrific idea. The patient needed every bit of morphine or whatever you put in them that they could take. We came on with fiscal policy very strong, and what people don't realize about fiscal policy, we talked about a stimulus bill a couple of years ago.

QUICK: Mm-hmm.

BUFFETT: But a stimulus bill isn't a stimulus bill because you stick the word stimulus on it. I mean, you can call any bill that spends money in Washington a stimulus bill. Stimulus is spending more money by the government than it's taking in. We are going to do that to the tune of 10 percent of GDP this year. We have massive stimulus going on in the United States. Stimulus like you haven't seen since World War II. We just don't call it a stimulus bill. But stimulus is the federal government spending way more money than it takes in, and you can call it a stimulus bill, you can— you can— you can, you know, you can call it the green flowers bill, but whatever causes the government to spend a lot more money than it's taking in is stimulus. And when you get to 10 percent of GDP you've got massive stimulus. So you've got massive monetary activity, you've got massive stimulus activity. And then what I think is the most important factor in coming out of the recession is sort of the natural regenerative capacity of capitalism. I think that's— now I think the other two can be important, and I think they're psychologically important because people expect the government to do that, and they don't— they wouldn't have confidence if the government wasn't doing it. But I think the main thing that makes the economy come back is 300 and some million people trying to figure out how to live better tomorrow than they're living today.

QUICK: That sounds like an argument for an end to this. You said— is there too much? You said we needed it then. Have we needed QE2 in some of the latest doses?

BUFFETT: Yeah. I don't— I don't think we need as much either monetary or fiscal stimulus as is going on. I think— I think we needed— the American public, the whole world needed to see two years ago that the federal government when the— when the world was going to try and deleverage and people were panicked over every kind of financial instrument, they needed to see the federal government there big time, and the government really did its job there in the fall of 2008. They threw in— they threw in everything and that was hugely important in getting across to the American people that they are— was not going to stand idly by while the whole machine came to a stop.

QUICK: Mm-hmm.

BUFFETT: But in terms of the recovery going on now, that recovery is going on because we've got 70-something managers at, you know, Berkshire trying to figure out how to do more business tomorrow than yesterday. And, you know, just look at what Apple does, or you name the company, or Amazon. They are thinking all the time of how to— how to get their customers to do more things with them.

QUICK: Let me ask you real quickly— Joe has a question, too— but I just want to pin you down on this and make sure I'm not making assumptions or putting words in your mouth. You think QE2 should end now?

BUFFETT: If I were— yeah, I have enormous respect for Ben Bernanke. He knows way— you know, he knows more about the Fed than I do by a factor of 100 to one. But in the end, I don't— I don't think we need more of that now.

BECKY QUICK: Joe, you had a question as well.

JOE KERNEN: I did. And I want to thank Warren for joining us and giving us all his time. Three hours is— it benefits us, obviously benefits viewers. If you were Charlie Sheen, I just figured out you'd make $12 million in three hours. So you're doing this— I don't think we're paying you that. So...

BUFFETT: No, but Charlie Sheen is— Charlie Sheen is paying me for being his media adviser, so I guess I'm actually doing very well.

JOE: Some of those— I— when I saw— when he said, "Gnarly," I said, `That has got Buffett's fingerprints on it,' just because you say gnarly.

BUFFETT: Yeah.

JOE: Here's, you know, listening to you talk, though, Warren, when you say with your comments about bonds, that makes me think of financial assets in general, which includes stocks. And I think about the printing presses not only in this country, but around the world. You've seen the commercial, cha-chung, cha-chung, cha-chung, with the central banks. And there are periods where financial assets are great from the like early '80s to 2000. And I just wonder if there's then periods where hard assets are great. And you see Paulson and gold and some of these other guys and gold or commodities. Are you just not comfortable with commodities? Are there times where you should be downplaying maybe stocks or businesses and going totally full-bore into commodities but you're just not comfortable doing that?

BUFFETT: No, the alternative with me, Joe, the alternative— I don't like— I don't like fixed dollar investments at all. I don't like short-term bonds, I don't like long-term bonds. We own a lot of short-term bonds, but that is not because we like them, that's just a parking place.

But the alternative in my view, I mean, certainly commodities can be an alternative, but the alternative is income-producing assets of one sort or another that are not fixed dollar type investments. And so I— I've said consistently for the last few years I would vastly prefer to own common stocks than fixed dollar investments over a five or 10-year period. I don't know any about the next five hours or five days. And that might very well extend to rental real estate, it might extend to farms. I mean, an investment you're looking for something where you put out money now and that asset that you buy gives you back more money over time. Now, the problem with commodities is that you're betting on what somebody else will pay for them in six months. The commodity itself isn't going to do anything for you.

So there's two types of assets to buy. One is where the asset itself delivers a return to you, such as, you know, rental properties, stocks, a farm. And then there's assets that you buy where you hope somebody else pays you more later on, but the asset itself doesn't produce anything. And those are two different games. I regard the second game as speculation. Now there's nothing immoral or illegal or fattening about speculation, but it is an entirely different game to buy a lump of something and hope that somebody else pays you more for that lump two years from now than it is to buy something you expect to produce income for you over time. I bought a farm 30 years ago, not far from here. I've never had a quote on it since. What I do is I look at what it produces every year, and it produces a very satisfactory amount relative to what I paid for it.

If they closed the stock market for 10 years and we owned Coca-Cola and Wells Fargo and some other businesses, it wouldn't bother me because I'm looking at what the business produces. If I buy a McDonald's stand, I don't get a quote on it every day. I look at how my business is every day. So those are the kind of assets I like to own, something that actually is going to deliver, and hopefully deliver to meet my expectations over time. A piece of art, you know, may go from $1,000 to $50 million, but it's dependent on what the next guy wants to pay me. The art itself— the painting itself is not going to dispense cash. So I have to find somebody that's going to like it more. And with most— with an asset like gold, for example, you know, basically gold is a way of going along on fear, and it's been a pretty good way of going along on fear from time to time. But you really have to hope people become more afraid in the year or two years than they are now. And if they become more afraid you make money, if they become less afraid you lose money. But the gold itself doesn't produce anything.

BECKY: Well, speaking of gold, though, we're looking at gold prices and they were at another record high. They're up another $3 today, $1,434 an ounce. And there have been some big fat hedge fund managers, like a Paulson or a David Einhorn, who have really buckled down on these bids. Why would you steer clear? And do you think what they're doing is the wrong thing?

BUFFETT: Well, I just don't know. I don't know whether cotton's going to go up.

BECKY: OK.

BUFFETT: I mean, we use a lot of cotton. I've watched it go from 80 cents to $1.90. You know, we use a lot of copper and I've watched it go from $2 to $4-plus, so I mean there's all kinds of things in this world that are going to go up and down in price. You know, maybe hamburgers will tomorrow. And— but I— I'm— I don't know how to judge that. I do know how to judge to some extent the earning power of some businesses. And the real test of whether you would like it as an investment is whether you would be happy if it never got quoted again, and just in terms of what the asset did for you. But that doesn't— I will say this about gold, if you took all of the gold in the world it would roughly make a cube 67 feet on a side. So if you took all the gold in the world, we could have a cube that went down there 67 feet...

BECKY: Uh-huh.

BUFFETT: ...67 feet high and that would be the whole thing. Now for that same cube of gold it would be worth at today's market prices about $7 trillion. That's probably about a third of the value of all the stocks in the United States. So you could have a choice of owning a third of all the stocks in the United States or you could have a choice of owning that little block of gold, which can't do anything but kind of shine there and make you feel like Midas or Croesus or something of the sort.

Now, for $7 trillion, there are roughly a billion of farm— acres of farmland in the United States. They're valued at about $2 1/2 trillion. It's about half the continental United States, this farmland. You could have all the farmland in the United States, you could have about seven ExxonMobiles, and you could have $1 trillion of walking around money. And if you offered me the choice of looking at some 67-foot cube of gold and looking at it all day, you know, I mean touching it and fondling it occasionally, you know, and then saying, you know, `Do something for me,' and it says, `I don't do anything. I just stand here and look pretty.' And the alternative to that was to have all the farmland of the country, everything, cotton, corn, soybeans, seven ExxonMobiles. Just think of that. Add $1 trillion of walking around money. I, you know, maybe call me crazy but I'll take the farmland and the ExxonMobiles.

BECKY: All right, that makes sense. Carl, you've got a question, too?

CARL: I'm still trying to get the image of Warren fondling a giant block of gold out of my mind.

JOE: Yeah, and his fondling it occasionally was what stuck with me.

BUFFETT: Well, bring me a giant— bring me a giant block— bring me a giant block of gold and you'll see me fondle like you've never seen before.

CARL: Warren, one question about— my favorite line in your letter, and I'm guessing everybody's favorite line is about your elephant gun being reloaded and that your trigger finger is itchy...

BUFFETT: Yeah.

CARL: ...teasing some investors, as some said, about your appetite for acquisitions. One of the— one of the immediate follow-ups for a lot of investors is, `Well, if he's so ready what's holding him back?' And with the cash levels that you have, some read into that, that at these levels, these multiples, Buffett's simply not interested. He wants things to really go on sale. Is that a coded message that you think stocks need to come down in order for you to buy?

BUFFETT: No, but it makes it easier if they would come by— come down. But it— we're looking— you know, as I said, we're looking for elephants. Well, for one thing, there aren't very many elephants out there, and all of the elephants don't want to go in my zoo either, you know. So I have to find an elephant that thinks being in the Omaha zoo is, you know, the greatest thing there is in life, which of course it is. And then I have to have a feasible price for it, and obviously, the lower stock prices are, generally the more chance of that happening will be.

But, you know, it's going to be rare that we're going to find something selling in the tens of billions of dollars where I understand the business, where the management wants to join up with Berkshire, where the price makes the deal feasible. But it will happen from time to time, and it'll happen more often when stocks are depressed than where they're buoyant. But I don't— we are not— even though stocks have gone up close to double from where we were here two years ago, stocks were really cheap then, and we talked about it then. Now, that, you know, people were scared but they— stocks were cheap. They're not as cheap now as they were then. But compared to most assets, they look attractive. And so it is not the level of the stock market that's scaring me off, it does make it more difficult to make deals now than it would have been two years ago. But we only need one.

JOE: Do we— do we still have more time, Beck, or do we got to— do you know? For this...

BECKY: I know they want to go to a break in just a minute to come back, but we're going to continue this conversation because this is obviously pretty fertile ground.

JOE: Yeah.

BECKY: A lot of our viewers have questions about this, and I know, Joe, Carl and I have quite a few questions, too.

JOE: Yeah, I want to ask him just a quick— a follow-up, too, on...

BECKY: Yeah.

JOE: ...because, yeah, let's just wait and I'll ask him a follow-up to. Because you do get paid back with your investments in dollars. And if those dollars are, you know, are going to be worth much less in the future then I figure you must— you must figure policymakers are going to get it together eventually, Warren, or else, you know, paper money's not going to be worth anything.

BUFFETT: Well, but that's true of— if you're— if you're trained to be a lawyer or you're trained to be on cable or anything else you're going to get paid in dollars. Now, the question is, if you have something valuable to offer even if the dollar gets worth less, you will retain earning power that's commensurate with purchasing power.

JOE: Ooh.

BUFFETT: And if— I mean, Coca-Cola, the— in the year since I've— was born the dollar has depreciated 94 percent. I mean, it's 16-for-1 in terms of inflation. But if you owned Coca-Cola in 1930, you've still done pretty well. Or if you owned a lot of good business in 1930. Because they have the ability to extract real earnings in terms of what they deliver to people. And your doctor is able to charge 16 times as much as in 1930 because his services are still as valuable. So, as the currency gets worth less, it does not make— it does not penalize the service or the good that is really needed by other people. The world adapts.

JOE: Hm.

BUFFETT: And that's why I like businesses or I like my own earning power as the best assets in a time of inflation. They really can't be taken away.

JOE: Hm.

BECKY: Warren, you started talking about how your— you've got an itchy trigger finger. I even saw you kind of moving your finger around like you're ready to shoot something. Do you have any irons in the fire right now?

BUFFETT: We had an iron in the fire that got taken out of the fire just a day or two ago, which did— a deal that did not— somebody else beat us out on it. And I've always got a gleam in my eye, you know. I'm always looking at the girl, but the girl may not be looking at me. I mean, that's my problem. And we— but we will always have something that is at least a very, very, very low possibility; somebody that's talked to me and said, you know, `I'll see what my board things,' or who knows. But we certainly have nothing that's a high probability at the— at the moment.

BECKY: Was this thing that you just talked about, the— this deal that was potentially there, was it a— an elephant?

BUFFETT: It was a— it was a— hm, maybe a zebra, you know. Sort of— I mean, it was big enough to fit a— to make the zoo more interesting, but it— but it wasn't one to cause, you know, new crowds to come out.

BECKY: OK. So it's not as big as Burlington Northern.

BUFFETT: No, no.

BECKY: But it was something that was substantial.

BUFFETT: It was something that caused my heart to beat faster.

BECKY: OK. We're going to talk a lot more about this because ever since you mentioned that you have an itchy trigger finger in your annual letter, it's got all kinds of people trying to speculate, figure out what you might be interested in.

BUFFETT: Yeah. But I would say this, Becky. I've had an itchy trigger finger all my life. I mean, I just, I got a free ad out of it in the annual report this year.

BECKY: OK. We'll talk more about that when we come back. Carl ..

CARL: OK, Beck, a lot more still to come with Warren. What a great first 30 minutes of the show. Joe, you were saying it's like— it's like a lesson with Graham and Dodd, right?

JOE: Right. I said that yesterday.

CARL: I mean, it's the basics of investing.

JOE: Someone made me tweet. He's the closest thing to the living epitome of, like— and you can't argue with it. There's $60 billion behind saying that.

CARL: The scoreboard doesn't lie.

JOE: The scoreboard doesn't lie, no.

CARL: Winning.

JOE: Right. Winning. He's a warlock.

CARL: Winning. He is a warlock. He is a god.

JOE: He is a warlock, and he likes to fondle gold occasionally, apparently.

CARL: When we come back, you asked for it, now Squawk is delivering. Buffett answers your e-mails when we return live from Omaha.

***

BECKY QUICK: Welcome back, everybody. This is a special edition of *Squawk Box*. We're live in Omaha with Warren Buffett, who's taken the time to sit down with us today and not only answer our questions, but also the questions that you've been sending in as well. And, Warren, we appreciate that. We got lots and lots of questions that came in. Carl mentioned that the probably most intriguing line of your letter was this idea that your elephant gun is loaded and you are ready, got an itchy trigger finger. That's what sparked a lot of the questions that came in. So do you mind if we play rapid fire real quickly with some of these questions?

BUFFETT: OK, go to it.

BECKY: All right, the first one, let's say, comes in from Miykael in Canada, who writes in, "With articles mentioning that you're looking for major acquisitions, with the economy favoring the low-cost segment, wouldn't Family Dollar be an ideal fit?"

BUFFETT: Well, there are a lot of companies that would be a fit at a price. It's easier for us to buy businesses that are privately owned than ones that are trading on the market because people— I don't care what the market price is in terms of what they're worth to us. But generally speaking, people, in evaluating mergers and acquisitions, look at the premium pay to the market price and decide whether that's a fair price or not. A fair price to us is one that— where we think we're going to get our money's worth in terms of future earnings, and I would say that we will generally have more luck with private businesses than public businesses, although Burlington was a public company, yeah.

BECKY: Mm-hmm.

BUFFETT: Most companies— most good companies sell at prices where if we were to pay a 20 percent premium to market, I would not want to buy them.

BECKY: Right.

BUFFETT: I mean, if you look at 50 large companies that would sort of fit the elephant category, if you add 20 percent to that price, I don't want to pay that for the business. There's a few exceptions to that, but not very many.

BECKY: All right. Well, let's talk about a private company. We had Whitney Tilson on our air earlier this week. He said he knows nothing, but it struck him that Mars might be an interesting company.

BUFFETT: Well, Mars is a wonderful business, and we're their partners in Wrigley. And if the Mars family were to ask me about selling their business, I would say keep it.

BECKY: Mm-hmm.

BUFFETT: I mean, if you own a wonderful business in life, the best thing to do is keep it. All you're going to do is trade your wonderful business for a whole bunch of cash, which isn't as good as the business, and now you got the problem of investing in other businesses, and you probably paid a tax in between. So my advice to anybody who owns a wonderful business is keep it. Now, sometimes there's a— some reason in terms of taxes or family situations or whatever it may be that a wonderful business is for sale. But I have told a number of people who've come to me who have wonderful businesses, if you can figure out a way to keep it, keep it, because all you're going to do is take that billion dollars you get, or 5 billion, you're going to pay some tax on it, now you're going to go out and buy some stocks, and most of those stocks you buy are not as wonderful as the business that you already owned, and you don't know as much about it and, you know, so sometimes it pays to know when you're well off.

BECKY: So why does anybody ever sell to you?

BUFFETT: Well, they sell because families subdivide, procreate or whatever you want to call it, and sometimes people lose interest in the business. We bought a company called See's Candy, one of our very first purchases back in 1972. Mary See had several grandchildren, and one of the grandchildren— grandsons was very interested in running the business, and one was less interested. And the one that was interested died, and the one that was less interested then decided to sell. It's lots— there's human dynamics that enter into it. But you should never sell a good business just to get money. That does not make sense.

BECKY: OK, let's take a few more viewer questions. This one's number 96, and he— again, this is Paul in Thailand, who wants to know, on this unloading the elephant gun, are you planning to unload in the United States or outside of the United States?

BUFFETT: Anyplace I can buy. I can't afford to be picky. There are so few chances out there that, you know, four or five years ago I was very lucky because I got a letter from Israel about Iscar.

BECKY: Mm-hmm.

BUFFETT: And I'd never heard of the company before, but I could tell it was our sort of business and our sort of management. So I would hope to get another letter like that tomorrow, and I don't care whether it comes from the UK or Germany or France or wherever. It's more likely to be the United States than any other place. But we have certainly not bought our last international company.

BECKY: Well, someone else writes in— Sergio from Mexico, he wants to know, "Is there some reason not to use the elephant gun on the stock market? For instance, increasing Wells Fargo to the 10 percent limit, or buying a lot more Wal-Mart?"

BUFFETT: Yeah. Well, we've done— in the last year we've done both of those things. We bought some more Wal-Mart, some more Wells Fargo.

BECKY: Mm-hmm.

BUFFETT: And I like those businesses, and I like the prices at which they sell, and I like the managements. But if I had my choice, I would rather buy a big business if it's all our criterion. But we have 60-plus billion in common stocks, and those are pieces of businesses that I like. And most of those businesses— now, Wells Fargo we couldn't buy. We can't buy a bank. You know, Coca-Cola isn't going to sell out to us, Wal-Mart isn't going to sell out to us. So we would be very happy owning 100 percent of those businesses at the prices at which they sell, or otherwise I wouldn't buy the stock.

BECKY: OK. Roman from Pittsburgh writes in, and I think I know the answer to this one, but he wants to know if you'd be interested in purchasing more US-based railroads at the right price. You can't do that, right?

BUFFETT: That would be pretty tough, yeah. In fact, when we bought the BNSF, it wasn't actually required by law, but we thought it was advisable to sell our holdings in the Norfolk Southern and the Union Pacific. And that probably cost me at least a billion dollars. I liked those stocks. I mean, I knew those companies were going to do well. And legally we didn't have to do it, but we thought that probably was a good idea. And now I think it's a bad idea.

BECKY: But it's not a reflection of your vision for the rest of these railroads?

BUFFETT: Oh, no, no. I thought— I would have— I would have bought more of those railroads. That— those— the railroads have a common future. The big railroads in the United States have a common future now. I like the ones in the West a little bit better than the East, but there are fundamental reasons why railroads were going to do well, and— no, if I could be loaded with— at least at the prices of a year ago, if I could have been loaded with other railroad stocks as well as buy the BNSF, I would have done it.

BECKY: Carl, you have a question, too?

CARL: I do, Warren, and I hope you won't mind me again plumbing through the letter, which obviously has a lot of information and a lot of insight. You talk in one area about your managers and how they love to work at Berkshire in part because they're not subjected to meetings at headquarters, or— nor financing worries, nor Wall Street harassment. And I know you pick your words carefully. Do you think bankers have been harassed, and do you sort of agree with what (JPMorgan Chase CEO) Jamie Dimon said in Davos, that he's tired of hearing about blame being placed on, as he put it, bankers, bankers, bankers?

BUFFETT: Well, I wasn't thinking specifically of bankers or JPMorgan on that, but I think— I would say that in talking to managers of publicly traded companies, I find— I would say that the great majority of them do not particularly enjoy the interaction with Wall Street. I mean, they do not like the quarterly conference calls and everything. That's not to say they shouldn't do it, but I'm just saying that is a part of their job that if they didn't have it, they would be happier in life. They do not like spending, you know, 15 or 20 percent of the time— I spend no time, for example, with any specific analyst. We spend all the weekend of the annual meeting, you know, we're there to answer questions for hours and hours and hours, and I try to answer all questions that I think are important than I can think of in the annual report. But I have never sat down— I never sit down with a big investor. They write and say, you know, `We own $500 million worth of stock, you have to sit down with us.' And I say, listen, I'm not going to sit down with you. We got, as far as I'm concerned, one share of me owned by some, you know, woman in my neighborhood is just as important as yours. And— but most managements kowtow to large investors. In fact, they call me— some of the things we own, they call me and they want to come from thousands of miles away to talk to me. And I say listen, if I need to talk to you, I shouldn't own your stock. I mean, I don't— I don't need to be schmoozed, you know? I mean— and the investor relations guys hate that because their job is dependent on, you know, making the boss feel it's very important to go around and stroke these big investors. But I'm not looking for that. And I would say that most managements don't enjoy it, and it does spend— they do spend a significant part of time when I would rather have them out there figuring out ways to cut costs or sell more goods or whatever it may be. And our managers do not have to spend any time on that sort of thing.

CARL: So that's more of a— that's just more— it's a function of being public, or having investor relations to deal with, period.

BUFFETT: It's a— yeah, it's a function of succumbing to what investor relations people and Wall Street generally tells you is important. I don't think it's important to schmooze investors. I think in the end you get a class of investors— what you want is people that understand you and your business and what you're about.

JOE: Right.

BUFFETT: And the idea of trying to cultivate new people all the time, you know, there's only so many seats in the church. And at Berkshire, in terms of the A stock, we have a million, 600 and some thousand seats. The only way a guy gets a seat is for somebody else to leave. I'd rather— I'd rather keep the person that's there than to try and induce somebody else to, you know, go out a thousand miles on a trip and tell them, you know, things are wonderful and sort of dodge around the problems of the business. I'd much rather do that than— I'd rather keep the person that's there already, have people that know and understand Berkshire, and not look for a revolving door constituency.

BECKY: Hey, Warren, real quickly, Joe has a question too. But on that point, William Anderson writes in from Salem, Oregon, and he says that, "We often hear that Berkshire shares are undervalued. You indicated that it was painful, comparable to `preparing for a colonoscopy,' to issue Berkshire stock, such as for the purchase of BNSF. With so much money in the bank, why are you opposed to having invest— to investing Berkshire money into a stock buyback and reducing the flow of the Berkshire stock?"

BUFFETT: Yeah, we announced one buyback some years ago when the stock, A stock was down in the low 40,000s. And by announcing, it was self-defeating. I mean, the stock went up. And there are times when I've— would have liked to have bought a significant percentage of Berkshire in the market because I thought it was— it would have been— increased the per-share value of the remaining shares.

If I'm going to buy you out in order to benefit Joe and me, I want to tell you first that I think I'm buying you out cheap. Now, if you still want to sell to me, you know, that's fine and you've been warned and— but the very act of me telling you that, particularly in a stock like Berkshire, is probably going to make the whole exercise self-defeating. It certainly did a couple of years ago. So it isn't much of a tool for us. I think it's a great thing to do if your stock is selling well below intrinsic value. Now, 40 years ago, most buybacks— when Henry Singleton was buying back Teledyne, when Paul Getty was buying back Tidewater Oil, all of those stocks, they were buying them because they were cheap. They were buying dollar bills for 60 cents. I would say that my experience with managements in the last 20 years is that they like buying their stocks when they're high. They, you know, just look at the buybacks that took place in 2006 and 2007 and then look at what those companies were doing in 2008 and '9. They were not buying back their stocks at a small fraction of what they'd been selling for earlier. Managements— many managements just like the idea of having their stocks sell as high as they can, except when they're issuing options to themselves, they like it low then, and the— my attitude is entirely different. You buy your stock back when you think you're buying it for less than it's worth, and you tell the people that you're buying it from that that's the reason you're buying it. If they want to sell it to you, then, you know, both sides benefit.

BECKY: OK. Joe.

JOE: Thanks, Beck. Hey, so Warren, I'm sitting there thinking about, there's more than one way to skin a cat, and I'll get some mail on that, I know, but I think about the way you do things and then, just for an example, I think about Ron Baron, and the way he has— he'll identify something, I don't know how the heck he does it, Apple or Netflix, and then he'll ride that baby and it will turn into like a grand slam. And I don't usually see you buying First Solar or some battery company for lithium cars, I— you know, it's just not your thing. And I wonder whether that's because— I thought about it, if you get a single every time— and you love baseball— if you get a single every time you're up at the plate, you— and you just keep getting singles, you will score more runs than if you get a home run every four or five innings or something. And maybe that's your attitude, but I think about what the government tries to do in picking these home runs, these alternative energy investments, and you don't do it. And I wonder why is it that you do don't do it? You need a real business before you'll put your money down.

BUFFETT: Yeah, I'm not— I'm not smart enough, Joe. I have enough trouble seeing the past; seeing the future's really difficult for me. So I can look at something like Wrigley's chewing gum, you know, which started, I think, around 1892 or something, or Coca-Cola, 1886, and if a product since 1886 has increased its per capita consumption every year for 124 years, almost, I, you know, I can figure that one out. I'm not— I'm not good at picking things for the future. Now, interestingly enough, the one company that you might say I was reasonably good at doing that at was GEICO, where I went there 60 years ago, I've got a 60-year pin here from a month ago. I had it explained to me by a remarkable man when I was 20 years old why GEICO had an extraordinary future, and the basic reasons he explained to me then are still operative today. So that is something, literally, where we have ridden out our own form of Amazon or Netflix or whatever it might be because I understood the reason why they had a fundamental advantage which would last forever. The competitors would not figure out how to take it away from us. But that's a hard thing for me to figure out about some new product. I mean, you know, Becky could show me some instrument she's carrying around that, you know, keeps her in touch...

BECKY: Not me. Maybe Carl.

BUFFETT: Well, maybe Carl, but it keeps her in constant touch with, you know, Carl and you. I'm not sure why she'd want to, but that's another question. The— and— but I won't— I won't under— I won't understand it, you know. But I can understand why people drink Coca-Cola and I can understand why they chew gum and I can understand why they insure with GEICO. And so I am limited by the things I can understand. And I understand things that happened in the past and which ones are likely to repeat and which ones are hula hoops or pet rocks. I can— I can make those decisions reasonably well. I am not good at listening to 20 guys who've got great new ideas about things that are going to change the future...

JOE: Well...

BUFFETT: ...and figuring out which one of the 20 is right.

JOE: But I wasn't headed to a political question, but I just— if you can't do it, that's why I just wonder whether assets are well-spent by a government trying to decide what the next— what's going to power the world 10 or 15 or 20 years from now. That was my point. If you can't do it, why do they think they can do it?

BUFFETT: Well, you're in charge of politics this hour, Joe, so I'll let you make that point.

JOE: Yeah.

CARL: You...

BUFFETT: But, no, I share some of your doubts, I share some of your doubts, Joe.

JOE: You dip your toe— you dip your toe into it. I'm going to get you going, believe me. We've got three hours.

BUFFETT: I can go to it.

JOE: You signed on for it.

BUFFETT: Yeah.

JOE: I'm going to get you going on some of this stuff because you are...

BUFFETT: OK.

JOE: You are as...

BUFFETT: I've been warned.

JOE: You are— you are as die-hard a capitalist is anyone on the planet, and in some, you know, I— some people use you— you're used by both sides of the political aisle to move the, you know, to prove a point, so.

BUFFETT: Hm.

JOE: I know you know that.

BUFFETT: OK.

JOE: All right.

BUFFETT: I've been warned.

CARL: We'll come back to you guys in a little bit. Of course, Warren and Becky talking there in Omaha with us this morning.

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CARL: Speaking of cars, someone who knows an awful lot about that business from multiple directions, Becky, is the man who's with you this morning, Warren, in Omaha.

BECKY: That's right. In fact, he was glad to hear Mike Jackson just talking. He said this is important and he'd like to talk about it. What are you thinking?

BUFFETT: Well, it— what Mike talked about is— gets back to that regenerative capacity of capitalism. We were sorting out 16 million cars a year not so many years ago. When it fell to nine and fraction million, when people were panicked, it was going to come back from that. We were— the scrappage rate was higher. Americans haven't lost their love affair with cars. More Americans were going to be in the country every year. So now it's back to, is— I think he said 12.4 or something like that in February.

BECKY: Mm-hmm.

BUFFETT: And it's going to come back beyond that. I mean, it— well beyond that. And that really isn't a function of saying cash for clunkers or isn't a function of monetary policy or fiscal policy, it's a— it's a function of the fact that Mike is out there trying to figure out ways to sell more cars, people want to buy more cars, money is cheap, the economy is coming back, and it feeds on itself over time. And you will see 12.4 look like a very low number in a— in a few years.

BECKY: Mm-hmm.

BUFFETT: And that is happening throughout America. It happens in different places at different times. It hasn't happened in homes yet because there was a bigger surplus to clean out. But in the case of cars, you can postpone it a day or a week or a month buying it, but scrappage rates count over time.

BECKY: Sure.

BUFFETT: And there is a normal number of cars on the road for a given population in a place like the United States, and we fell below that for a while and now we're coming back, and we're going to keep coming back.

BECKY: Somebody just wrote in, wanted to know if you'd be interested in buying Auto Nation.

BUFFETT: Well, it's a good business.

BECKY: Yeah.

BUFFETT: It's a good business.

BECKY: All right. Warren's going be with us again for the rest of the program. We've got a lot more to talk about and a lot more of your questions to get to. Our conversation is just getting started this morning. More on the economy, politics and the best investment bets right now. Again, much more from Warren Buffett, *Squawk Box* will be right back.

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CARL: Welcome back to Squawk here on CNBC. I'm Carl Quintanilla along with Joe Kernen; Becky Quick this morning is at the Durham Museum in Omaha, Nebraska, with the Oracle of Omaha, Warren Buffett, who's with us for the entire show. We've already gotten one hour down, Joseph. You look like you've learned a lot already.

JOE: Yes. I've learned a lot and I've got--and I'm...

CARL: Your elephant gun is loaded with questions still.

JOE: Yeah. Yeah, it...

CARL: And your--and your...

JOE: Or do I just like you? I--and I'm craving more--I have more questions...

CARL: Yeah.

JOE: ...and I'm craving more answers.

CARL: We've gotten a lot so far.

JOE: Right.

CARL: We'll get to Becky and Warren in just a minute.

* * *

CARL: Want to get back to Omaha, where Becky is this morning, fielding questions not just from herself and Joe and me, but from viewers. How many--how many questions do you think, Becky, we've gotten total?

BECKY: Oh, thousands of them at this point, and I know they're still coming in fast and furious this morning. We're trying to go through those ones this morning as they're coming in. But we got some really thoughtful questions. This is the fourth year in a row that we've sat down with the Oracle of Omaha and talked to him about that annual letter just after it's come out. This time, though, we did it a little differently. We're here on a Wednesday instead of a Monday. And, Warren, that actually gave the shareholders and the viewers a lot more time to go through this letter and come up with some pretty thoughtful questions. So we want to work in as many of these as we can today.

BUFFETT: We may have to go back to the old system, I think. They're tougher.

BECKY: These are tougher questions. One thing I do want to bring up, though, from the annual letter. You wrote about how capital spending at Berkshire is going to be up above $7 billion this year.

BUFFETT: Yeah, eight billion. Yeah.

BECKY: And that's--and more than a billion dollars above where it was last year.

BUFFETT: Yeah.

BECKY: So the--that's some pretty significant spending. You also said that all that spending is going to be taking place right here in America.

BUFFETT: Yeah. We spent about six billion last year, 90 percent of which was in America, 5.4 billion.

BECKY: Mm-hmm.

BUFFETT: This year it'll be up two billion, roughly, to eight billion, and all of that increase will be in this country. We--there are plenty of things to do in the United States that make--that make good economic sense. And, you know, we've got the money to do it and it--particularly true in our capital-intensive businesses like the railroad and I--like our utility businesses. But we're spending money in the residential home construction business not because we see the orders today, but it takes time to build a plant for Johns Manville and, like, we want a brick plant in Alabama. That brick plant's going to lose money this month, it's going to lose money next month, it'll lose money the month after. But we are buying the ninth largest brick producer, and we know that one year, two years, five years from now people are going to be using a lot of brick in houses. And we could buy it at an advantageous price, so we're...

BECKY: You think that that's a general sense in business right now? Because Jack Welch was with us yesterday, and he pointed out that in the businesses he knows--at Hertz, for example, if you look at the S&P 100 companies, the spending with Hertz that they're doing is up 15 percent from a year ago. If you look at the S&P 1000, it's only up by 6 percent. And if you look at the S&P 2000, it's only up by 2 percent. Do you get that same sense of this graduated confidence about the economy, depending on how big the business is?

BUFFETT: Well, I think it's more what you're seeing in your own industry. Men...

BECKY: Mm-hmm.

BUFFETT: But we aren't seeing it in residential homes. And I mean--or I'm not buying a brick plant because I see a demand for brick next month.

BECKY: Mm-hmm.

BUFFETT: But this country used 10 billion brick a year five years ago when we were building a couple million homes, we're using about three billion brick a year. But it isn't because people have lost their interest in brick or its utility or anything has changed, it's just residential construction's down a lot. But that's not going to happen forever. And a brick plant is going to be more costly to construct five years from now than now. So if we're getting something that's state of the art, you know, now's the time to buy it if you've got the money. And we've got the money.

BECKY: Well, let's talk about a big announcement that just came out late last night, NetJets is going to be buying, it looks like, 50 global business jets valued at about $2.8 billion dollars from Bombardier, and you've got options for another 70 global aircraft. If you buy all these, it's going to be retail price exceeding $6.7 billion, and that'd be the largest aircraft purchase in the history of private aviation.

BUFFETT: That's true. Yeah. We--and we did the same thing in small cabin aircraft with Embraer some months ago. So we have committed in two of the three categories, they're still the midcap, and--but we've committed huge amounts in the anticipation of demand that occurs over the next 10 years. Now, you don't build planes overnight, you don't get demand for them overnight. But there will be an increase in general aviation over the next decade, and we have--we think this is a good time to make those commitments. We can make a commitment better now than when the people are selling planes by the--by the--by the bucketload. So there will be--there's some anticipatory activity that we engage in, and some companies may not do that. They may not have the money to do it. But as demand comes on, you will see--you're going to see a pick-up this year. And those figures you quoted about capital expenditures, my guess is that that expands as the year goes along.

BECKY: Right.

BUFFETT: I mean, people--a lot of people don't respond--and you can understand it--until the order comes in the door. But as business picks up, everybody wants to start playing again.

BECKY: Right. Joe:

JOE: Yeah. Oh, I'm just--I'm not going to--not even going to make the comment that he's not investing a lot in any high-speed rail company. But never mind. Not that--that's neither...

BUFFETT: Our trains--our trains--our trains go pretty fast, Joe.

JOE: But--I know. I know. Not that--that's neither here nor there. But aviation does have a pretty good--that's a better way to--you know, if you're going to go between Fargo and Milwaukee, Carl, you don't need to get on a high-speed rail, right?

CARL: How about Tampa-Fort Lauderdale?

JOE: No! No! No! You do not!

CARL: Now, that's just crying out for high rail.

JOE: You do not! Hey, I didn't hear your...

BUFFETT: Joe, let me get...

JOE: Go ahead.

BUFFETT: Joe, let me give you an interesting fig--let me give you an interesting figure. The 800-and-some miles of rail they're talking about in California, high-speed rail, I think they've talked about a cost of 43 billion for that. We bought the Burlington with 23,000 miles of main route railroad and tens of thousands in sidings and all of that, 6,000-plus locomotives, how many cars I don't know, tunnels, bridges--we bought the whole thing, counting debt, for about 43 billion. So as you can see, there's--it's pretty expensive to build that stuff.

JOE: Don't--I understand. It almost sounds like you're agreeing with me. I don't want--I don't want that. Hey. I didn't hear your answer on Auto Nation, Warren, because they were in our ear. Do--you say that's a pretty good business? Is that--did you...

BUFFETT: Yeah.

JOE: Yeah?

BUFFETT: Yeah, my impression--I don't know it in detail, but my impression is that's a pretty good business.

JOE: Becky, did Mike Jackson sign that e-mail, or did he--what...

BECKY: No. It actually came from--it actually came from somebody in our--in--our Washington bureau chief.

JOE: Oh. Oh, oh. I thought he wrote in, do you want to buy...

CARL: Because Mike is in Washington today.

JOE: Yeah. I thought it was signed, `Do you want to buy Auto Nation?' signed Mike Jackson.

CARL: Right.

JOE: Which would have been...

BECKY: No, no, no.

JOE: That--oh, OK. All right.

BUFFETT: No. I would...

JOE: Never mind.

BUFFETT: I would--I would have--I would have sent a car for him if it did.

JOE: Hey, the other thing I was thinking, Warren, I love the phrase "morning in America" and "America's best days are ahead," and you say that all the time. And I--you fervently believe it, I fervently believe it. I'm wondering whether you think American exceptionalism is real, or whether capitalism and the way we practice it here imbues America with that exceptionalism. Is it us, or is it the system itself?

BUFFETT: It's--well, it's overwhelmingly the system itself because human beings had desires to live better lives three or four or 500 years ago, and they were natively intelligent and they worked like hell, they worked harder than we did. So there's always been the human input, but the output really wasn't commensurate with, you know, the quality and the intensity of the input. And then a system came along in the United States which, to a significant extent, believed in a rule of law, it believed in the rule of the marketplace, it believed in equality of opportunity--none of these were perfect, but that system unleashed human potential like never before. And now what you've seen is you've seen other countries around the world in their own way copy it to some degree. And they haven't had to get smarter in a native sense, they haven't had to work harder. They've simply had to have something that let a 500-horsepower motor in the human body churn out something like 500 horsepower instead of only turning out 50 horsepower like it did for millennia.

JOE: But are we declining--is it morning in China? Is it--is it--is it midday here?

BUFFETT: Yeah. It's morning in China, but it's morning in America. I mean, China will grow faster than we're growing, obviously, because they're coming from a lower base. And that'll be true of other countries around the world. But the fact that we can't--you know, it's a little problem I have with Berkshire. I can't--I can't grow Berkshire with a $200 billion market value the same way--at the same percentage rate as I could when it was a few hundred million. But it can still be plenty satisfactory. It--the percentages can't be as great. And the United States cannot grow at the same rate as a China can, but they start from a far, far lower base. And we ought to be happy that they're doing well. It's not a zero sum game in the world. We do not want to be an island of prosperity in--among seven billion people, and have 300 billion people doing very well here and have the rest of the world in--you know, in squalor because that's not a good idea under any circumstances, it's probably not a good idea as a humanitarian. But beyond that, it's not a good idea when some of these other guys have nuclear weapons.

BECKY: You know, real quickly, on that point, Warren, we got a question from a viewer, Ivan in Germantown--I don't know if that's Germantown, Wisconsin. He wrote in, "How concerned are you about the possibility of the dollar losing its status as the world's reserve currency? And how rapid and how severe would you expect the impact of such a change to be?"

BUFFETT: Yeah. Well, the dollar will become less important over time because the--America's dominance of the world economic system will diminish. It doesn't mean we aren't going to be the leading player 25 years from now, we will be. But what--this overwhelming dominance that we've--post-World War II that we--that we've exhibited throughout the world, other countries have caught on to some degree. And, like I say, we should be glad they've caught on. Their people are going to live better because they've caught on. You know, it--the people in China are not smarter than they were 50 years ago natively, they are not working harder. But they have learned how to unleash their potential, and it's a marvelous thing. But the United States is the example to the world.

BECKY: OK. Carl:

CARL: Just sticking with the China theme, Warren, we--everybody's watched you with BYD and trying to gauge your experience in doing business over there. What's the biggest lesson you've learned about Chinese culture when it comes to business, and what is your response to those who really see a property bubble in China that will--that will end in tears at some point down the road?

BUFFETT: Well, yeah, I don't know about their specific markets. I mean, almost any company--any country that flourishes over time will have hiccups, and sometimes major hiccups. I mean, look at the United States. We've probably had 15 recessions since the country was formed, and we've had--you know, we had a very major one here in the last few years with all of our development of thinking we know all about economics and all that. So any--countries are going to have hiccups. The main thing is whether they go totally off the rails or not.

But if you look at China and you look at the physical assets that have been put together in the last few decades, I mean, it just blows your mind to look at the roads and the tunnels and the railroads and the buildings. All of that's been put together. And at the same time, they have accumulated 2.7 trillion of reserves on the rest of the world. Now, think about the United States. When we were building the United States, building the railroads and--right here in this area where I am, we were borrowing money from Europe to do that. It was the smartest thing we ever could do to build capital investment here, borrow the money and then pay them back later as we became more productive. But in the case of China, they have built this incredible amount of wealth, and they have not done it with borrowed money, they have done it while building up 2.7 trillion more than any country in the world in terms of claims on the rest of the world. So it's a remarkable situation. Now, it--whether they have booms and busts in their stock market or their real estate market, I'd be amazed if they didn't. I mean, every developed country that's, you know, whether it's Germany, whether it's the United States, whether it's the UK, whether it's Japan, we've all have significant ups and downs. But if you look at where we are compared to 50 years ago or 100 years ago or 200 years ago, there's really been nothing like it in the history of mankind.

BECKY: Warren, we've got a couple of viewer questions, actually several of them, but I want to bring two up right now about BYD...

BUFFETT: Mm-hmm.

BECKY: ...since Carl mentioned this in his introduction to that question. Ray from Westminster, Maryland, writes in. He says, "Everyone seems to be aware of your investment at BYD--that's the Chinese electric car company. The stock's deteriorated of late and I can't seem to get a handle on the firm's profitability. Are they trying to compete on pricing only, or does their battery technology give them a clear advantage?"

BUFFETT: Well, the battery technology, if it works out like they hope it will, will give them a clear advantage. But battery technology is a evolving and tough game. And my partner Charlie particularly thinks that we've got the right fellow to make the breakthroughs in that--in that area. But it isn't like you get it tomorrow or the next day. And, you know, there are a lot of smart people working on battery technology. And, you know, I--in the--in the end, what I hope is the world gets a great answer on it very quickly...

BECKY: Mm-hmm.

BUFFETT: ...and if it says--if it says "made in Japan," "made in China," "made in the United States," the important thing for humanity is that--is that we get great battery technology. Now, like I say, my--Wang Chuanfu is an amazing guy. I'm impressed with him.

BECKY: The gentleman who heads BYD.

BUFFETT: Who runs BYD.

BECKY: Right.

BUFFETT: And my friend, Charlie, who knows a lot more about batteries than I do, thinks that this guy is the second coming, more or less. So we'll see what happens on that. It's not easy. I mean, when you're dealing with batteries, you know, the weight, the cost, there's all--there are plenty of problems involved, but I will bet significant progress is made by BYD, but there may be more significant progress made by somebody else in the next few years.

BECKY: Tony in San Diego writes in and says that, "BYD has lost more than 60 percent from its peak in 2010. Do you consider buying more shares because of the current discount?"

BUFFETT: No. Well, who knows?

BECKY: OK.

BUFFETT: With the one thing I--you know, you can talk about everything in my life virtually except for what we're buying or selling.

BECKY: OK. So that's a non-answer.

BUFFETT: Yeah.

BECKY: But, Joe, you've got another question, too.

JOE: All right, we'll always have--always have more. Warren, I'm trying to figure out whether you--we're--since we're on the subject of energy, it's fascinating how we're going to do this as we need more and more. And are you going to play it through utilities and not really think about what the input is for the--for the energy it's going to come from? You're not--you're not smart enough to figure that out, or...

BUFFETT: You've got it. You got it. I'm not--I mean, I'm not good at that. I got through physics OK in college, but that's just because I memorized the formulas. I really never knew why when you, you know, turned a little switch lights went on or the television went on. And I still don't know. So I do not have a mind that really has any special abilities at all, in terms of things physical. So I leave that to others, and I--you know, I just try and figure out whether people are likely to drink more Coca-Cola next year than last year.

JOE: But...

BUFFETT: And I can under--I can understand certain--I mean, I can understand if you're the low-cost guy in auto insurance that--and people have to buy it, that you're going to do very well over time. But I am not good at insights about the future products. And I do not sit and try and figure out trends or any of that sort of thing. And I don't--and I don't pay any attention to people that talk about them because I don't--I don't know enough to evaluate them myself.

JOE: Yeah, but utilities are going to be there delivering whatever it is that generates the energy.

BUFFETT: Sure.

JOE: And so that's your--that's the way you're going to participate in that.

BUFFETT: Yeah.

JOE: Because you have...

BUFFETT: Yeah, they're...

JOE: ...you haven't bought natural...

BUFFETT: They're fundamental.

JOE: You haven't really bought natural gas or oil in the ground or--typically, right?

BUFFETT: Not very often, no. And, you know, it--I don't know--the oil picture five years from now will be to, you know, may be much more dependent on politics than whether I can pick the best geologist in the United States. And, you know, I know we'll be using more natural gas, I know it's got all kinds of advantages and it's cheap on a BTU equivalent to oil and it's cleaner and all kinds of things. But in the end the price depends on supply and demand. And even though demand will go up some, I don't know whether supply's going to go up even faster than that. And so far it's been--the last few years I should say that, you know, natural gas has been pretty disappointing. It hasn't been disappointing in terms of finding it, hasn't been disappointing in terms of its performance, it's just been--there's been too much of it around. And I don't know--I'm not good at figuring out, you know, whether that will change a year from now, or five years from now, and I'm not in that game.

CARL: I do like your point, though, about batteries. And a big--it's a tough hill to storm, but if you could--if you could take that hill and turn batteries into something other than what they are today, that has implications for solar, certainly for BYD. Would you say, Warren, that battery--the evolution of batteries is where you are most leveraged to innovation and tech?

BUFFETT: Well, perhaps. And, Carl, you're 100 percent right. I mean, it--and it's going to happen. It may happen at BYD, it may happen, you know, with General Motors, it may happen in Japan. Lots of smart people are working on it, and you know it's a tough problem because you're got to many smart people and it is proving tough to get accomplished, but it's going to happen. It will happen. And I'm not the kind of a guy normally that makes a bet on who's going to make it happen. I'm just not that--I'm not that good at picking the winner in something like that. I know who's going to win in soft drinks, I know who's going to win in chewing gum, you know, I know who's going to win in auto insurance. But that doesn't really take any great insights. My partner, Charlie Munger, believes very strongly that BYD is the most likely winner in this. He's got a--and he is a lot smarter than I am on this subject and a lot of other subjects. But that doesn't mean I'd shove all my chips out in the table just because Charlie feels that way.

BECKY: Hey, Warren, before we go to a break, I do want to ask you about one more headline that came out yesterday and that does concern Berkshire in a very offhanded way. There's a gentleman named Rajat Gupta...

BUFFETT: Right.

BECKY: ...who was on the board at Goldman Sachs. Apparently he tipped off Raj Rajaratnam about your investment in Goldman Sachs, that it was coming, that big investment during the financial crisis. And Rajaratnam made about 900,000 to $1 million on that trade. The bigger question--I'm assuming you knew nothing about that...

BUFFETT: No, no.

BECKY: ...but the bigger question is, how frequently do you think things like this happened?

BUFFETT: Well, I think they've happened, you know, I've got no idea in the sense of any--but they happen. And one of the things I feel the best about is that, in all of the Berkshire acquisitions we've made, I mean, whether it was Dairy Queen or Flight Safety or Burlington Northern or you name it, or when Disney--when we acquired ABC and then when Disney acquired ABC, if you take the whole record of all the ones that Berkshire's directly involved in, the stocks of the acquired company have actually underperformed in the week before the announcement. Now, we make a point of trying to get deals done fast. I mean, and when we did Burlington, it was from a Friday when I made an offer that Matt Rose conveyed to his directors, and I told them that I wanted a contract by the following Sunday and I wanted to be able to announce it on Monday morning because I--if enough time goes by and enough people get exposed to it, somebody's going to talk. And so far at Berkshire we've been able to do that, but it always worries me because this--as--and when a deal starts out, the circle enlarges and who knows about. That Goldman deal, for example.

BECKY: Mm-hmm.

BUFFETT: The time between when I said I would do that deal and when it was announced was very, very, very short.

BECKY: How short?

BUFFETT: Oh, it was, you know, hours. I mean, and as opposed to a merger or something that might take a couple of weeks. But it's alleged, I think, that the fellow heard about it and then went right out and made a phone call. I mean, if they're going to do that, you know, you're going to have--you're going to have a problem. And I would say that, you know, it's all kind of--just what you hear from other people, but there's been a fair amount of trading on inside information, I think, in Wall Street. There's money in it, you know, and it's tempting to people.

BECKY: Hm.

BUFFETT: It could be a secretary in a law firm, it can be a--it can be somebody at a printer. I mean, it's--there's just--you can't make a deal without a certain number of people hearing about it. Now, at Berkshire, you know, I don't even tell the directors. I mean, I--Mark Hamburg, our CFO, knows about it if I'm working on something. Charlie may know about it. But I just--I'm paranoid about the idea that if we have 20 people that know about something, you know, one of them's going to tell somebody. And they may do it not even to make money or anything like that, they may do it just to show off that they, you know, that they got all this knowledge or something of the sort.

BECKY: Mm-hmm. OK. Well, again, Warren, thank you very much. And we're going to continue this conversation in just a moment. Carl:

CARL: All right, Beck. When we come back, a lot more form Warren and Becky in Omaha. By the way, if you still want to e-mail us, you can today. It's askwarren@cnbc.com. We'll answer some of your questions right after the break.

* * *

BECKY QUICK: Welcome back to *Squawk Box* here on CNBC. We are in Omaha, Nebraska, this morning at the Durham Museum with Warren Buffett. We're going to be answering some of your e-mail questions. And, Warren, just again for people who are coming in late, we're in the Durham Museum in front of the Ernest Buffett Grocery Store. And this is pretty important to you.

BUFFETT: Yeah. That store was founded my--founded by my great-grandfather, Sidney...

BECKY: Mm-hmm.

BUFFETT: ...in 1869, which is when the transcontinental railroad was completed. That's when the UP hooked up with the Central Pacific at Promontory Point, Utah. And my grandfather had two sons that worked with him, Ernest and Frank, and unfortunately they both fell in love with the same woman at the store. So she married my grandfather, and for about 20 or 30 years Frank didn't speak to him and opened up another grocery store, but not that we carry grudges in the Buffett family. But Charlie Munger and I ended up working there.

BECKY: Yeah.

BUFFETT: He worked there in the late 1930s, I worked there around 1940, and we never knew each other. But we did have this experience of working for my grandfather, which, believe me was an experience. He believes in hard work.

BECKY: Yeah, you wrote about that in the annual letter, as well, and said that the thing that you learned coming out of that is the importance of liquidity and not getting overleveraged.

BUFFETT: Yeah. My grandfather left--gave $1,000 eventually, at 10 years after the marriage of each of his children and my aunt didn't marry, but he gave her $1,000 as well and he sent them this letter and he said, `Put this money away.' He said, `Don't get tempted to invest it because some day you may need money and who knows what you're can do with your investment then.' So you'll always want to have some cash. He gave me a $2 bill when I was a kid and he said carry this around and he said you'll, you know, you'll never be broke.

BECKY: Now Berkshire has how much in cash?

BUFFETT: Well, we probably have about--I think we had about 38 billion at the end of the year, so.

BECKY: It's a lesson you took to heart.

BUFFETT: Yeah. He would be happy.

BECKY: OK. Let's get to some of the viewer e-mails and a significant number of those e-mails that came in had to do with Berkshire's investments. You spent a lot of time talking about that in your annual letter. But one that came in from J.P. in Delaware says that "Given that Wells Fargo is your second-largest equity holding, how concerned are you with the resignation of the CFO and the manner in which the company disclosed this?"

BUFFETT: Yeah, I don't think the manner in which they disclosed it was very good. The--but Howard Atkins was a terrific CEO or CFO.

BECKY: CFO, yeah.

BUFFETT: And you know, I didn't know him personally, I never met him personally, but I--but I watched him on television, I saw what he wrote and everything. It has nothing to do with their financials.

BECKY: Mm-hmm.

BUFFETT: I spent about four hours last Saturday reading the 10-K and I feel very good about the whole Wells operation. Obviously, there's something there beyond what was in the news release and it's a tough thing. If you've got something that neither side wants to talk about, they're not going to talk about it. And I don't--I don't know the answer myself. I know it has nothing to do with financials, though, and...

BECKY: That was another viewer question that came in from Clif in Alabama.

BUFFETT: Yeah. Nothing.

BECKY: That--there was at least one analyst who wrote that this did have something to do with that.

BUFFETT: Yeah.

BECKY: You are 100 percent convinced it did not?

BUFFETT: I'd bet a lot of money that he's wrong.

BECKY: OK. That's one of many questions that have come in, but we also have questions that have come in about Moody's . Achit in Arizona writes in, "In your FCIC interview, you spoke of the inherent advantages of a duopoly that Moody's and S&P share. Why does Berkshire continue to reduce its interest in Moody's? Is there too much headline risk" for you?

BUFFETT: Well, I think that duopoly is in somewhat more danger than it was simply because people are mad at the ratings agencies and the ratings agencies totally missed what was going on in the mortgage market and that was a huge, huge miss. I don't think they were, you know--I think they were just wrong, like a lot of people were wrong about in thinking that housing prices couldn't go down a lot, but they were rating agencies and they've gotten a lot of criticism for it and their business model is sensational when it's a duopoly. I mean, I have no bargaining power. I'm going to see Moody's in the week or I think or something about our ratings.

BECKY: Mm-hmm.

BUFFETT: And you know, I dress up and do everything I can to, you know, talk about my balance sheet. But they--they're God in the ratings field and Standard & Poor's, and I need their ratings. And if they tell me the bill is X, I pay that, and if they tell me the bill is X plus 10 percent, I pay that. You know, if Coca-Cola charges too much, you know, you may think about drinking Pepsi Cola, but in the rating agency business, you need those two. and if that--either people get so upset with them or whatever it may be, or Congress gets upset, that could disappear. It won't disappear from natural reasons. I mean, it is a natural duopoly, just like--it's a little different than Freddie and Fannie were, but they also had some specific advantage. Sometimes you find situations where you get a natural--well, you used to have that in the newspaper business. You had a natural monopoly in big cities. It wasn't--it wasn't illegal, it just worked out that way.

BECKY: Mm-hmm.

BUFFETT: And that's what happened in ratings agencies. But it's not as bullet-proof as it was. Although, I will say that...

BECKY: Does that explain why you've been selling?

BUFFETT: Well, we haven't sold that aggressively.

BECKY: Mm-hmm.

BUFFETT: I mean, if you look at it during the course of 2010, we sold a very small amount of the--it looked to me that that threat was receding to some degree. But it's different than it was five years ago.

BECKY: OK. Another question comes in from Christian in Germany who writes, "You're invested in American Express, but you don't like credit cards. How does this match?" And I'm guessing Christian is referring to what you were talking about in your grandfather's letter.

BUFFETT: Yeah. No, I think--we offer credit cards at our furniture store, our jewelry store, I mean, the American public is going to use credit cards. I mean, if you say you're not going to accept credit cards, you might as well say you're not going to accept money if you're a retailer. But I tell every student class I get, high school students, university students, you know, they'd be better off if they never used credit cards now.

BECKY: Mm-hmm.

BUFFETT: Now if you use them and you pay at the end of the month so you don't start revolving, that's another question. But I can't make money if I'm out borrowing, you know, at whatever the rate may be, 12 percent, 14 percent, 16 percent, when you know, Libor's a quarter of a percent. I mean, the world isn't that inefficient. So...

BECKY: Right.

BUFFETT: ...I--if I'm going to go broke, if I borrow at credit card rates, you know, what kind of--they're going to get in trouble. I get all kinds of letters from people who've gotten in trouble on credit cards. So I think it isn't going to happen, but I think if credit cards didn't exist, I think probably the economy would be better off.

BECKY: Wow. Does American Express know you feel that way?

BUFFETT: It isn't going to happen. It isn't going to happen. I mean, you know, people are going to do it. I mean, you know, and I understand why they do it. You know, it's so nice to think that you know, I want this today and I'll pay for it tomorrow.

BECKY: Mm-hmm.

BUFFETT: But it gets a lot of people in trouble and it's expensive. And it isn't because the credit card companies are getting rich, incidentally.

BECKY: Sure.

BUFFETT: I mean, I went into the credit card business at GEICO, I thought I was this genius a couple of years ago and I was going to sell--have credit cards for GEICO customers because we have them at the furniture mart and other places and I lost about, I don't know, $60 million later on. Our losses were quite significant. I mean, credit card companies run big credit losses, it's an expensive sort of business. So it isn't that they're getting rich, necessarily, at 12 to 14 percent, but that doesn't do their customer any good that's paying that amount.

BECKY: Let me ask you one more about American Express and then Joe has a question, too. But David from London writes in, that "as AMEX's largest shareholder, are you concerned that Congress will reduce the credit interchanges fees as they have done for debit interchanges? Those account for the vast majority of AMEX's revenue."

BUFFETT: Yeah. Well, American Express has a very special card. I mean, it. The average American Express card holder, I think, I think they're probably charging, I don't know, 13, $14,000 a year. That's four times of what--or five times, maybe, I don't have the exact figures, what they're charging at Visa. And the American Express card carries more cachet, by far, than a Visa and it has more utility in many different ways. American--I decided the American Express card was special, actually, back in the early 1960s. The first credit card was the Diners Club card.

BECKY: Mm-hmm.

BUFFETT: And the Diners Club card kind of swept through. It was a--it was a hot stock and all of that.

BECKY: Mm-hmm.

BUFFETT: And then American Express came in as a defensive measure, they thought it was going to knock out their traveler's checks. And they priced their card higher than the Diners Club. Now imagine coming in against the leading guy and charging more. But they established their card as something special and it is something special. So it is--it is a--it is a superior card for somebody, particularly, that's a big spender. My wife had one of those cards that was, you know, one of those black cards that cost a lot of money and everything. I still carry the green card.

BECKY: OK, Joe.

JOE: Yeah, thanks. So Warren, so I've been sitting here thinking, I understand that chewing gum, people like to chew gum, I got that, and See's and make--you know, See's candy. I was thinking, you know, maybe a dental chain might be good, too. But what I'm getting at--where I'm going with this is I think about media and I think about the prospects for media and I don't know whether people keep chewing gum. I don't chew that much, but media is so pervasive and I just look at the outlook for media and I think about 1.2 billion people in China, but I don't know how to play it right now and I don't know whether you know how. I just see a huge opportunity.

BUFFETT: I...

JOE: I see a huge opportunity, but I don't know what to do with it. And I'm wondering if you could help me.

BUFFETT: People want to be entertained and they want to be informed. I mean, the demand for that is huge, is worldwide, it's going to go on forever. So you know, newspapers satisfy that in a very important way, particularly on a local basis. And the nature of newspapers was that you didn't want to subscribe to five of them, you subscribed to one and if there were two in town and one had 1,000 ads and one had 200 ads, you were going to buy the one with 1,000 ads because it told you were more jobs were available, more apartments were available, it gave you more sports news and whatever. So it lent itself to a single product. Now you have media where you go to the Internet and you can go--you can essentially hop from one source to another, you know, in a--in a fraction of a second. So it's a different--it's a whole different equation. It isn't--the desire for entertainment and information, you know, is--will be around forever. It's insatiable. How to get paid for it appropriately, you know, the world has changed and it's changed dramatically, and I do not consider myself an expert in the least about where media is going to go in the next 10 or 20 years. I do not know where the money is going to be made. Somebody will make a lot of money, but I'm just not that good at picking the future on it. I understood the past on that. I understood the big network television station. I mean, back when there were three networks only in the '60s, you could have run a test pattern, you know, on your television station and made a lot of money. It was--it was--it was a cinch. The orders came in over the transom. But all of a sudden they started putting more highways out there, more electronic highways and the fact that you had one of the three electronic highways diminished in importance enormously, so now you've got a network that is getting a 10 percent share, losing tons of money, and you'll have a network with, you know, a 2 share, like ESPN, making a fortune because of the way the dynamics have worked out. I don't have any great insights on that for the future. If I did, I'd--it's just--I'm just not smart enough.

JOE: I hear what you're saying, it's the same problem everyone has. I don't even know, is it content? Is that king? Or is it delivery, like Apple? I mean, you look at, Apple might be the perfect company for when I--when I, you know, with all these mobile devices.

BUFFETT: Yeah.

JOE: But I don't even know whether it's content or the distribution that is--that win.

BUFFETT: Well, if you're the best heavyweight fighter in the world, which is the way I often think of you, Joe, actually, but if you're the best heavyweight fighter in the world, if you're the best singer in the world, you know, whatever it may be, you've got the ultimate asset. I mean, the delivery mechanism will pay you one way or another and you can command it from them. But obviously, I'm not--I'm not in a position to compete in that game. So the only way I can compete is in the delivery mechanisms and all that and I'm just not that smart. But the answer is I don't have to be right about everything or even understand everything, I don't have to know what cocoa beans are going to do or what cotton's going to do, I just have to right on the decisions I make. So I stay with the simple things. Now a simple thing many years ago, back in 1965 I owned 5 percent of Disney and the whole Disney company was selling for $80 million, so at 4 million bucks bought 5 percent of the company. Well, Disney had a tremendous franchise and they could bring out "Snow White" every seven years or "Mary Poppins" or whatever it might be and wrote them down to zero, initially. Well, that was an easy decision. But I don't see easy decisions like that now and if I don't see an easy decision, I don't play.

BECKY: Warren, let me bring up a question from Pierce in Greenwich, Connecticut. He writes in about Apple, since you just mentioned it. "Do you feel the Steve Jobs saga has already taken its toll on Apple's stock price or do you feel it has yet to make its mark?"

BUFFETT: Oh, I don't--I don't know that much about Apple. I mean, all I know is Apple is an absolutely phenomenal company. I mean, to think of where they were 10 or 15 years ago and where they are now.

BECKY: Mm-hmm.

BUFFETT: And that's been done by innovation. I mean, and I think Steve Jobs has had a whole lot to do with that. But...

BECKY: I think that's the big question is how important is Steve Jobs to that company?

BUFFETT: Well, he's enormously important to Apple. And you know, Walt Disney was important to Walt Disney, a company. I mean, there's certain talents that are really rare and Steven Spielberg is important, you know, to his business. I mean, it--there--people who can read the needs of the American public before the American public even realizes that it has those needs, and then have the genius to create a product that satisfies those needs and gets there fast, and then is attractive, you know, in terms of all kinds of things, functionality that you can't believe, they deserve to get very rich. I mean, they--he saw something that I didn't see five years ago or 10 years ago.

BECKY: Mm-hmm.

CARL: I think--it kind of sounds like you're describing *Squawk Box*.

JOE: Yeah, *Squawk Box*. We're fast, we're entertaining, but then I also thought, I thought you were--when you were talking about me, I thought you were eventually going to end up with either a News Corp or a Comcast, you know, just to pull a name out of the--out of the thin air.

CARL: Warren knows...

BUFFETT: Yeah.

CARL: Warren knows something of Comcast.

JOE: Or a--or a Disney or something. I mean, I don't know, I'm just--one of those--the big companies, I think--I think it helps to have some size and some diversity with all your assets, but...

BUFFETT: Well, but of course, the big companies, you know, if you go back 30 years ago, they started going for diversity with CBS. I mean, CBS ruled the--it was the Tiffany network and it even owned the New York Yankees at one point. So it's very tough. General Motors ruled the world, you know, when I was a young investor. It--Sears ruled the world of merchandise. It's not so easy to pick the winners. It looks easy in retrospect always.

JOE: Yeah.

BUFFETT: You know there will be winners. I mean, in media there will be huge winners. I mean, somebody that can figure out a way to attract millions of users, like just take a Facebook or something.

JOE: Mm-hmm.

BUFFETT: Imagine that, you know, being in the mind of a guy five years ago and now millions, hundreds of millions of people, you know, build their lives around it to some degree. That's amazing. But I am not the guy that can do that, and I'm not the guy who can spot the guys who can do that. But fortunately, I don't have to be.

BECKY: OK, guys, we're going to continue this conversation, but for now we'll send it back to you, Joe and Carl, in the studio.

CARL: I still like Warren calling Joe a prize fighter because I picture you at a--at a weigh-in in your underwear on the scale.

JOE: Oh my God. I got some advice...

BUFFETT: He's--he is...

JOE: I don't--you know what?

BUFFETT: He's known as the Mike--he's the Mike Tyson of cable.

CARL: Yeah. He'll bite your ear off.

JOE: Bite your ear off. I might get one of those--one of those tat--do you think that would work, one of those tattoos on my...

CARL: Yeah, it would look good. That's a good look for you.

JOE: I don't know.

CARL: Anyway.

BECKY: Hey, guys, before you go, real quickly, let me point out one other thing. We didn't get a chance to mention this earlier, but I know, Joe and Carl, you have both gone back and forth, boxers and briefs, boxers and briefs.

JOE: Yeah.

BECKY: Today Warren wore in a special tie which shows some of his interests as well.

CARL: Really?

BUFFETT: Yeah, this is a--I don't know whether you can see this, this is a **Fruit of the Loom** tie, and I actually have this for airplanes and GEICO and a bunch of others. But I thought in honor of you, Joe, I would wear my underwear tie today. At Fruit of the Loom, you know, our motto is "we cover the asses of the masses," and I thought of you when we--I put this tie on.

JOE: That is--you know what? We could not see it, but we just did. I really--I like that. But I--Carl's got the right...

BUFFETT: You like that one?

JOE: Carl, you don't have to choose. You are a boxers combo brief guy, right?

CARL: Yes.

JOE: And they make something...

CARL: And you are a tighty whities guy because--you even have the underwear for the hands, remember? Jane Wells brought you...

JOE: I have underwear--I have underwear...

CARL: ...hand underwear.

JOE: No, I'm a...

BUFFETT: I wish I hadn't started this!

CARL: I know.

JOE: Yeah, I know. I know. But you did.

CARL: Thanks for nothing.

BECKY: You brought it up.

JOE: But you did. And it doesn't take much to get us to talk about this, Warren. Yeah, we'll...

BUFFETT: I can tell that.

JOE: Oh, yeah, OK, we've got...

CARL: A lot more still to come from Omaha. We still got the ADP number coming, we'll get that number and the reaction ahead of Friday's jobs number. A lot more from the Oracle of Omaha as well when we come back.

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BECKY: All right, welcome back, everybody. We are live in Omaha, Nebraska, at the Durham Museum. We're speaking to the one and only Warren Buffett all morning long, and now it's time to get back to some of your e-mails. You've been sending them in, and we do appreciate them. They've been thoughtful e-mails. Got a lot to get through. And, Warren, why don't we jump right into this?

BUFFETT: OK.

BECKY: There were a lot of questions that came in regarding Berkshire, people who still had questions after they read the letter. This came in from Steve in Dallas, Texas. He writes, "After a year of full ownership of BNSF," the Burlington Northern, "is there anything you know now about the company that you didn't know from reading the annual reports, 10-Ks and other public information? In other words, does full ownership confer additional information advantages that you did not have when you were a minority shareholder?"

BUFFETT: Well, it would if I dug into it. And, you know, I will learn something occasionally about--I probably know a little bit more about the Rail Labor Act than I did earlier. You know, but nothing material. I mean, it--I've only been to the company once since we bought it, and I get--I look at a few more figures than I might otherwise. But I--but if I didn't know enough before I wrote the check for 34 billion, I mean, you know, I was making a mistake. You know, I really have not--I've learned nothing of significance specific to the railroad. Now, I would say that over the last year my appreciation of the competitive position of the rail industry vis-a-vis trucking has improved somewhat. There's--just the other day the truckers announced they're going to have to spend--or they're going to have to raise prices significantly this year. And so I think if anything, my appreciation for the competitive advantages of railroad both for the owner and for society have increased significantly.

BECKY: OK. Let's bring in a question from Richard in Tucson, Arizona, who says, "How do you evaluate the effectiveness of the $900 million spent on advertising last year at GEICO?"

BUFFETT: That's a good question. Yeah, people have been asking that question ever since they started advertising. I think it was John Dorrance at Campbell's Soup 75 years ago or so when it was a big advertiser, and they said, you know, `Isn't half your money wasted in--on advertising?' He says, `Yeah,' he says, `I just don't know which half.' Well, we can measure certain types of advertising. I mean, when we do direct mail advertising, you know, we get a response which gets measured. And we do cold phone numbers and that sort of thing. But now with three-quarters almost of our quotes coming from people who come to the Internet, you know, what drives them to geico.com, who knows? I mean, certainly our television advertising does it. All I know is it's working. In February we had the greatest gain in policyholders of any month in our history. And it blows me away.

BECKY: Hm.

BUFFETT: I mean, we had a gain of about 130,000 policyholders in one month. If you think of 130,000 households, that's like a town of 300,000 just getting added in one month. And why they come, you know, what--that little gecko does wonders and, you know, we get in people's minds that they're going--they might save money by checking with us. And it's a big, expensive item for most people, auto insurance, and if they can save a few hundred dollars, it's meaningful. So--but exactly why we get more inquiries in February than we were getting last October, you know, I don't know the answer. All I know is if I thought spending another billion dollars this year would work in an appreciable way, I would write a check so fast. I mean, I love advertising.

BECKY: You think the gecko works better than that catchy name, Government Employees Insurance Company?

BUFFETT: It--who knows what does it. It--one way or another--I mean, we were spending about 20 million a year when I took over in 1995, and now we're spending 900 million. And all I know is every month I urge them to spend more. I mean, it--we want every American to at least give us a try. And what we have seen is that of the people that call us, you know, if they phone us, we're going to get--over 40 percent of those people are going to become our customers. And when you get that kind of a response, you know, you better be out there talking to people.

BECKY: OK, let's bring in another question. Robert from Potomac, Maryland, writes in--and this is something that a lot of people are confused on, so hopefully you can clear this up. But, "Why did you allow, I assume, the new manager to liquidate many of Lou Simpson's stocks? If they met your `forever' holding period criteria with Simpson, why sell? Simpson's record is long-term proven. The new manager has no record long enough to show a similar competency or that his results are just luck. These stock sales are inconsistent with your forever holding period advice." So maybe you could clarify what's really happening there.

BUFFETT: Yeah. Well, we buy--when I say I, I buy stocks with the idea I'd be happy holding them forever. We don't end up owning them forever, obviously, in many cases, because you find something else that's more attractive and--or sometimes managements change and who knows what. But Lou Simpson was managing his own portfolio. He managed it for 21 years, did a sensational job. But when he said he was going to leave in June, he and I both decided he was going to liquidate his portfolio between then and the end of the year. In other words, I never inherit any investment decision from somebody else. If Charlie Munger made me a gift of 100 shares of some stock, I would sell it then--and then--I would then decide whether I wanted to buy it again myself. But I do not believe in default-type decisions on investments. So when Lou left, his portfolio left. When a new man comes in, his portfolio comes in.

BECKY: And the two aren't related.

BUFFETT: They're not related at all. Lou had maybe 15 or so stocks, generally in the 3- to $400 million range, and he just sold them proportionally throughout the rest of the year. He wasn't going to be managing them anymore, and I knew they were probably good companies, but I didn't want to buy them myself. And there's no reason, if I don't want to buy them myself, I should tell the next manager at Berkshire--of GEICO to manage them. Todd is going to be responsible for his decisions, and--just as Lou was when he was there. And I want it to be Todd's portfolio.

BECKY: OK. Carl, you have a question, too?

CARL: I was just wondering, Warren, earlier you talked about searching--hunting for elephants or even any business, and occasionally some businesses do not want to sell to you for a variety of reasons. Does that ever take you by surprise? Do you ever say, `Excuse me, I'm Warren Buffett. I'm kind of a big deal, and the opportunity to be owned by Berkshire doesn't--is kind of a golden ring that may not come around too much'?

BUFFETT: That isn't exactly the way I present it to people. No, it's very--a really good business, like I say, if it's owned privately, they shouldn't sell. I mean, I--I've been called in by lots of families, and I--and they're usually good businesses. And I--the first thing I tell them is that you should keep this business unless there's some compelling reason other than the dollars you'll get from it. Because you'll get a lot of dollars from me, but those dollars are not going to buy a better business than the one you've got already. I mean, I--you know, that's why I'm buying it. So I don't think--the question usually--the question is now is finding big businesses. I mean, there aren't that many big businesses in the world, and then I want big good businesses, and that narrows it down further. And then you have to have people who for some reason or another want to sell on the other side. And that happens from time to time in America.

I've--I had a fellow come to see me a few years ago, and he loves his business, it's a wonderful business, and he said, `Warren, I want to sell you this business.' And he said, `I want to sell you this business because I'm 61 years old and I'm in good health and I love running it, but I don't know, you know, what would happen if something happened to me tonight.' He said, `I've seen'--he'd bought another business where the family had fallen apart when the--when the owner had died, and he said, `I don't want to leave my wife with that kind of a problem, and my children, and they wouldn't know what to do with it. So as long as I get to keep running the business, I've got all the money in the world, and so I want to have the joy of running the business and I do not want to have the worry of what happens if I'm not around tomorrow.' And he said, `You're the only guy that can solve that.' So that's the only way I win beauty contests is when I'm the only guy in them.

CARL: All right, we're going to...

BECKY: All right, I think--go ahead.

CARL: Beck, we'll continue the conversation after we reset at the top of the hour. A lot more coming up with Warren Buffett and your e-mail questions, plus the countdown to jobs Friday is ongoing. It includes the ADP number in about 17 minutes' time. We'll get that number and the instant reaction when *Squawk Box* comes right back.

JOE: Ho, oh, hey, I thought we would be in...(unintelligible). Welcome back to *Squawk Box* here on CNBC, first in business worldwide. I'm Joe Kernen. I'm with Carl Quintanilla at CNBC headquarters. And Becky, who looks really beautiful.

CARL: Ravishing.

JOE: What'd you do, bring a--who'd you bring--who's out there with you?

BECKY: I have great people out there.

JOE: And Warren looks--yeah--Warren looks good, too. That is Warren Buffett.

CARL: Ravishing.

JOE: Yeah, ravishing. A legendary investor, Warren Buffett, with his--he's wearing an underwear tie. If you missed it, you should have been tuned in. He's been answering--he's been answering...

CARL: I think the term was asses to the masses.

JOE: Yeah, asses to the masses. He said that, yeah.

CARL: Yes.

BECKY: Cover the asses of the masses.

CARL: Right.

JOE: Right. All right, answering viewer e-mails for the past two hours. We have many more questions or e-mails to go. I've got more, Carl has more, Becky has more. Plenty to discuss with him over the next 60 minutes. First, though, Carl is going to bring us up to speed, as only he can do, on the morning's top headlines. Carl..

CARL: Joe, thanks.

JOE: You're welcome.

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CARL: Equity futures meanwhile holding onto some moderate gains, although Europe continues to be in the red. And, Beck, the market also responding, reacting to some of the calls that Warren has made in our first couple of hours. Some of them, I think, relatively bold, right, looking for unemployment in the low sevens by Election Day and other things like that.

BECKY: Yeah, that's right. You know, Carl, we've gotten through a lot of ground this morning. In case you missed some of the earlier points, why don't we talk very quickly about the economy and unemployment. As Joe and Carl mentioned, we do have ADP report. That report coming up at 8:15. And, Warren, we watch the ADP every month because we figure it'll give us some indication about what's happening with the big jobs report on Friday. It hasn't been great in tracking that lately, but do you watch the ADP?

BUFFETT: Well, I don't really. I watch our own businesses. And we've got so many of them, I get a lot of data coming in all the time, and, you know I don't know how accurate those surveys are. I do know how many people we've got on the Union Pacific working every day, or how many people's at Geico. And I was surprised incidentally last year that our employment only went up 1 percent, whereas our businesses really did a lot more volume overall. And I don't think we're going to be able to continue that. And there was--I think as our businesses increase this year our employment will go up much more in tandem with the rate of increase.

BECKY: What businesses do you expect to see more hiring within the Berkshire family?

BUFFETT: Well, I think most of--I think most of our businesses will hire more people. And I mean I think our railroad, you know, our railroad during January hired more people. But I know Geico will hire more people this year. But I think you'll see it. At Marmon, for example, one of our main businesses there is leasing--building and leasing rail tank cars. Now, when you see those trains going down the tracks, you think those cars all belong to the railroads. They don't. The tank cars all belong to shippers or to people like us who lease them to shippers. We are--and we make those cars down in Alexandria, Virginia. We are seeing more people interested in buying tank cars for various things, whether it's--I mean, it could be for ethanol, it could be--could be for all kinds of things that get carried in tank cars. We're seeing more interest in that in just the last month or two. We will add people at Alexandria, Virginia, to our tank car line. I don't know whether it'll be this month or three months from now or two months from now, but the orders are coming in. And you see that in one area after another in our businesses. So I think we will--I would be surprised if we don't add more--quite a bit more than 3,000 people this year to our overall employment.

BECKY: You know, you talked in the annual letter about optimism for this country.

BUFFETT: Sure.

BECKY: You've talked about how the economy is improving and how the investing outlook, you've said, is getting back to a normal situation, that things look very good in terms of the dividends you expect to be getting paid back from a lot of your major investments. You also, though, wrote in the annual letter about GE and Goldman . Those are two companies that you made major investments in preferred shares, and you did mention that by the end of this year you expect both of those companies to call you on those.

BUFFETT: Yeah, I made a mistake on those. I should have--I should have snuck in one sentence that said, "You have to find me if you're going to pay me off." And then, you know, I would have gone in the witness protection program and Immelt and Blankfein would have had these people out looking for me. But they know where to find me, and as soon as Goldman can pay me off, which is determined by the Federal Reserve, my guess is that they will. GE, by contract, can't pay me off till sometime in October and I think they will--they've said they will pay us off as quickly as possible. So that--you know, I--Goldman, I think, I mentioned we get $15 a second as a dividend. So tick, tick, tick, that's 15 bucks every time. And I love to hear those ticks, but they don't like to hear those ticks. And as soon as--when the Fed gives them the green light, I have a feeling that Lloyd will charter a NetJets plane and fly that check out to me.

BECKY: OK. Joe, you have a question, too?

JOE: Yeah, I do. And a--I should say I probably have a follow-up, too, because I'm going to get to where I'm going, but it always takes a while. I know that. Warren, we think about jobs in the country and how to get jobs. And then we also think about how to run businesses. And that huge--or that jet acquisition you made from Bombardier, you could have bought Gulfstream. Do you--do you ever think about social responsibility in terms of where the jobs will be--will be generated? That could have gone to Gulfstream, but it didn't, it went to Bombardier, right?

BUFFETT: Yeah, we think about what will be the best deal for our customers in terms of what they're going to want in terms of a wide cabin, long-range plane. And in the end the customer drives every decision we make on something of that sort.

JOE: That's a global--are you're buying--is that plane you're talking about?

BUFFETT: It's a series of four planes over the next decade or so. Eventually they'll bring in a 7,000 and an 8,000, so there's--and incidentally Gulfstream will be bringing in new planes over the next decade, too. But we evaluated the options just as we did in the small cabin planes, tried to decide what, in terms of the demands of our owners, what they want in terms of range, in terms of cabin width, in terms of all kinds of things, cost, and made that decision, because in the end we can buy planes, but we also have to sell planes, and the customer's going to make that decision.

JOE: We--I guess this indicates that both business travel, which I figure use the big cabin ones, and also--you bought--you bought in Marquis jet, right? That goes more to, what?

BUFFETT: Right.

JOE: Pleasure? How's that acquisition going, and are we seeing then, you're saying, a bounce in both business travel and individuals?

BUFFETT: Yeah. And we bought Marquis late last year, and Kenny Dichter, who runs that operation, is doing a terrific job for us. Our sales of Marquis cards in the month since we bought it are appreciably ahead of the same months a year ago, and it made sense for us to buy Marquis and I'm glad we own it. We're seeing--we're seeing increases in both personal use and in business use. And sometimes it's hard to tell. Sometimes in small businesses an owner will have $100 or something, and we don't really know whether he's using it for personal or business use.

But we have seen--we have not seen a surge in demand at all. We have seen our present customers using more hours per month by a considerable margin than they were two years ago. They're usage right after Lehman fell off dramatically. They were still paying us the monthly management fee and all of it. They had the right to the same number of hours, but they weren't using them. It was amazing to me, because you had these very wealthy people and they had homes and, you know, that they went to at Christmas or Thanksgiving. But maybe they started going to them by bus. But our usage really fell off there significantly in the six months following Lehman. It's come back quite a ways. Our sales have picked up, but they're not remotely like they were four or five years ago when everybody was feeling flush. JOE: Well, you're making a huge bet on the future of this. And, you know, you--sometimes you lessen investments like Washington Post or something, that it looks like even though NetJets has never--has it been a big moneymaker for you? You're going in, you know, full bore at this point.

BUFFETT: Yeah. Well, Net, since we bought it, we made a couple hundred million dollars last year and that brought it--brought us back to where for the full 11 years we more or less broke even.

JOE: Right.

BUFFETT: So it has not been a satisfactory investment financially. It's been--it's been a significant winner in the marketplace. We have five times the market share of our leading competitor. Nobody's gained market share on us, nobody gets the customer satisfaction reports that we get. But we have not--we have not made money. We were spending more money than we were taking in, which catches up with you eventually. Under Dave Sokol, it's now doing very well. But it is now--we have not gone back to a period like 2005 and '06 and '07 when the hedge fund operators and everybody were signing up hand over fist. We're selling more than we were a year ago and are using more than a year ago, but it's not dramatic.

JOE: Well, it looks like you're expecting it to be.

BECKY: Hey, Warren, real quickly.

JOE: I'm sorry, Beck, but...

BUFFETT: Well, I...

BECKY: Oh, that's OK. Go ahead, Joe.

BUFFETT: Joe, I just feel if we could get you in the fold that millions would follow you. I mean, you're a trendsetter. So...

JOE: I have asked you many times for one of the--I don't know how we can swing it, Warren, but a Squawk jet has been on our list of things to have. You want one, too? A Liesman jet or a Squawk?

STEVE LIESMAN: Squawk...(unintelligible).

BUFFETT: If you'll just--if you'll just let me garnish your wages I could promise you you'll be in the--you'll be in the pilot's seat.

JOE: You--can you garnish into the hereafter? Because that's what it would take, I think.

CARL: How about we just put it on a credit card.

JOE: Yeah. Put it on a credit card, that's right.

BECKY: Put it on our AmEx.

BUFFETT: Maybe you and Carl ought to go in together.

CARL: He did send us a brick, and we will never forget that.

BECKY: Warren, let...

JOE: No, you sent--you sent--you sent me a brick and put my name on it.

BUFFETT: Yeah, and I do not remember a thank you note, but maybe I...

BECKY: Warren, I want to ask real quickly, we just put up the picture of Dave Sokol. He's one of the managers who is repeatedly mentioned as a potential successor. You said in your annual letter that there's a manager you talk to every single day. Is that Dave Sokol? Is that a Ajit?

BUFFETT: It's Ajit. I try--I talk to Dave very frequently, but I talk to Ajit every day. We have a lot of fun talking every day. I forget what the deal was he was--we were talking about yesterday, but it was--it was some insurance over--as you know, they've had two earthquakes in New Zealand and then floods in Australia, so that part of the world has been hit very hard by catastrophe. So there's a demand for more catastrophe insurance, for example, over there. And so Ajit and I just sit down and try and figure out what the chances are of another earthquake in New Zealand. And who better than us?

BECKY: You also just saw--we saw some headlines crossing about how Berkshire's going to be getting into the India insurance sector. That's a new move. Is that what this is...

BUFFETT: Yeah, that just happened. And I think we just got approved within maybe the last 48 hours. And we are going to have an agency over there that will be selling--I think it's going to be called Berkshire Direct.

BECKY: Mm-hmm.

BUFFETT: And I'll be over there in about three weeks, and I think by then we will be up and running. We just got the permit the other day, and so we're hiring people for the phones and all of that. So that should be fun.

BECKY: Hmm. All right, real quickly, just to bring this back to jobs because we do have ADP coming out in just a moment, there are a lot of economists who are not expecting any significant decline in the unemployment rate this year; some who aren't even expecting any until the end of next year. What's your own personal prediction?

BUFFETT: I think we'll create more jobs this year than we did last year. Now, the unemployment rate bounces around in kind of a funny way depending on who declares themselves in the--in the labor force. But I think we will have better luck creating jobs in 2011 than 2010. Just--I just see businesses improving. And I think--I think they were very reluctant to hired when they first--saw the first robin or two.

BECKY: Mm-hmm.

BUFFETT: I mean, they--they've been through such a painful period...

BECKY: Mm-hmm.

BUFFETT: ...that they just, they were not going to bring a bunch of people back on until they really needed to bring them on.

BECKY: Mm-hmm.

BUFFETT: But they need to bring them on now.

BECKY: OK. And, Carl, I think you have more on that right now.

CARL: We do. We're going to get ADP, Beck, in about 40 seconds.

* * *

CARL: Let's send it back to Becky in Omaha. Beck ...

BECKY: Hey, Carl, thank you. You know, Warren, we just heard the ADP numbers here, and obviously they were a little stronger than had been expected. Everybody's playing this guessing game right now, though, trying to figure out where the economy stands. And that brings us back to a discussion we had earlier this morning, trying to figure out what the Fed does next with its monetary policy. You said if you were Ben Bernanke, you'd end QE2 right now based on how you think the economy's doing.

BUFFETT: I think the economy is coming back, and I think that we'll never know. There's probably three big variables in the economy's development, and we like to think of monetary policy and fiscal policy because we all learn about them in school and all that. I think the most important factor by far is just this underlying regenerative capacity of capitalism. I mean, if you go back a century or so, nobody ever heard of monetary policy or fiscal policy. And we had recessions, and they cured themselves. And they cured themselves because millions of Americans were trying how to--figure out how to do things better the next day. I mean, capitalism works. And I think in this particular recession, I think it was enormously important what the Fed and the Treasury and government did immediately. They had to end the panic. But I think if you talk about what's happened in the last year, I think that who knows the importance of the variables of fiscal and monetary policy. If you--if you ask me, they're number two and three compared to this natural regenerative capacity. And I--we've had foot to the floor, as I've said, on monetary policy, we've had foot to the floor on fiscal policy. But I think what's really getting job--the job done is the imagination, creativity, the energy of the American public in terms of keeping a system going that's worked marvelously for several hundred years.

BECKY: Hey, Joe, you have a question, too?

JOE: Yeah, I got a specific one, shifting gears a little bit. Warren, you like--you love Wells Fargo. You talk about it a lot. You were in...

BUFFETT: Yep.

JOE: Berkshire was in Bank of America , and it wasn't a good experience, and you're out now. I think you lost two-thirds or something. But, I mean, obviously the financial crisis hit. But that--that's making some--you're voting with your feet there, I think, what, on management, on the prospects for B of A? I mean, you like Well--you're staying in another bank, why would you get out with a loss instead of the...

BUFFETT: Yeah.

JOE: Go ahead.

BUFFETT: I never--Joe, I never bought a share of Bank of America. That was one of the 15 or so positions of Lou Simpson. So he did not make a decision to sell Bank of America in the second half of last year.

JOE: OK.

BUFFETT: He just--he was liquidating his entire portfolio. He sold a--he sold Nike. He hated to sell Nike. He loved Nike. But he was cleaning out his portfolio, and Todd's bringing in a new one. But I...

JOE: OK.

BUFFETT: Bank of America was never part of a portfolio I managed.

JOE: OK. So when you see Berkshire liquidates its entire stake in Bank of America, you can't say, oh my God, they don't like the prospects--or Warren doesn't like the prospects for Merrill Lynch...

BUFFETT: No.

JOE: ...or (CEO Brian) Moynihan...

BUFFETT: No.

JOE: ...or you can't draw any conclusions from that.

BUFFETT: No.

JOE: OK.

BUFFETT: Zero, zero. I never bought a share and I never sold a share personally.

JOE: All right. OK.

BECKY: Warren, let's go back just to Fed policy and some of the things that are happening. Joe mentioned earlier about the idea that the government, not just this government's printing money.

BUFFETT: Absolutely.

BECKY: Is it about to overtake us? You start to worry about inflation?

BUFFETT: Yeah. It--you know, in--I think, you know, we've got major problems. And we're--and I said, we're always going to have problems, so this does not mean I'm bearish on America or anything. But we have a situation in Congress where we have a 10 percent deficit in terms of GDP, and we may be drifting into even larger numbers. I mean, we've made promises that--for the future that are really kind of inconsistent with the revenue streams we'll have. There are three ways of solving that: breaking the promises of modifying them, taxing a whole lot more, or inflating your way out of it. And inflation is the--is the ultimate tax. I mean, it taxes people who don't know they're being taxed. It taxes people who believed in paper money, who believed in their government.

It's a particularly--you know, I find it--it's almost a--it's not the way government should be behave, but they do behave that way. Ad it's the easiest thing to do. I mean, we...

BECKY: Do you think we're intentionally doing that right now? Do you...

BUFFETT: Oh, I don't think it's so much intentional, but it's the fact we don't want to do the other things, and so it becomes the default option. And we are doing things--we are following policies that will lead to lots of inflation down the road unless changes are made. And once--inflation is the kind of thing, when it gets started, you don't even--you don't particularly notice it. It's a little like a guy, you know, jumping off a 50-floor--out of a 50-story building. The first 45 stories, he really doesn't notice a lot of change, you know, in his circumstances.

BECKY: Mm-hmm.

BUFFETT: But eventually you hit the ground. And there is no way you can run the kind of deficits we're running and following other policies, and this is true around the world, without it being enormously inflationary. And no politician is going to come out and say we're really going to solve this by making our money worth less. But--I mean, it'd be suicide to do it. But that is--that's the practical effect of the policies that are being followed now. You know, they're not written in stone, they can--they can be changed. But the easier course for governments to follow always is to inflate, and that's why paper money--and I don't disagree with your viewer that wrote in. I mean, paper money generally has a lousy future.

BECKY: Mm-hmm.

BUFFETT: And I, you know, a couple of years ago when people were running to cash, I said, you know, it's the worst thing you can have. I mean, there--the one thing I can guarantee will not work well as an investment is cash.

BECKY: Is cash a worse investment now than it was two years ago?

BUFFETT: It--it's a--no, it's a--it's a little less worse because then the option was to buy so many other assets so cheap.

BECKY: Mm-hmm.

BUFFETT: I mean, you wanted to use cash then. People said cash is king. The ability to use cash then was king, but having the actual cash was the dumbest thing you could do. And--but people run to cash and they run, you know--but paper money is not a good bet. And the more of it that you issue--I mean, there have to be consequences to issuing paper money. There are consequences to the--to the Fed buying lots and lots and lots of securities and giving credits to the banking system in return. If it was all that easy, you know, we'd be doing it all the time.

BECKY: But you sound a little different than you have on this point the last few times we've checked in with you. It sounds like this is a time, maybe an inflection point where you're getting a little uncomfortable with this.

BUFFETT: Yeah, I wrote an **op-ed piece in The New York Times** and--over a year ago--and I said this is--this is OK now, but it's--but it is morphine, and you've got to get off of it. And we haven't shown much tendency to get off of it so far. I mean, this--you know, the Simpson-Bowles thing came in, and those are two terrific people, they worked hard at it. They got 11 out of 18 votes, you know, and nothing's been heard since. And that's wrong, in my opinion.

BECKY: That disappoint you?

BUFFETT: Yeah.

BECKY: What would you like to see happen? Would you like to see the panel's recommendations be adopted?

BUFFETT: I would like to see something seriously adopted that leaves us in a situation down the road that is tenable in terms of having a money that will retain its value to a very high extent. The fact that inflation now is 1 or 2 percent, you know, doesn't mean anything. I mean, that--you know, I--if you jump off the 50th floor, I mean, at the 45th floor, you know, you should not judge the success of your effort by where you are at that point.

BECKY: But addressing this growing problem, you don't think is something that can wait till after the 2012 elections?

BUFFETT: No, well, then there'll be a 2014 election. I mean, no, I think--I think if you've got a very important problem, whether it's in business, whether it's in your personal life, wherever it may be, you know, you address it promptly.

BECKY: OK. Carl, you have a question, too?

CARL: Yeah. Warren, I mean, we're into some important stuff here now, talking about Simpson-Bowles and what needs to be done. There's also this report out of Goldman that suggests that the 61 billion that the Congress is considering in cuts for the fiscal year could take a couple percentage points off GDP in the--in the second and third quarter, perhaps as many as 700,000 jobs. Whether or not you agree with that, does the momentum that the economy have, is there enough cushion that we can sustain so-called austerity? And what do you make of the UK's situation, where they implemented something tough, and right away their fourth quarter GDP went negative?

BUFFETT: Well, a 10 percent deficit of GDP, changing that in a small way does not lead you to austerity, believe me.

CARL: OK.

BUFFETT: That is a number we haven't had since World War II. And, no, I'm very suspicious of all economic forecasts, including my own, incidentally. No, I think these people who toss out numbers and say this bill, you know, saved us three billion jobs, I think that is total--I just don't think they know what they're talking about. I don't think I--I don't think I know what I'm talking about either when I--it isn't that I think I have a better number, but I can assure you that I've seen so much of that that I'm very skeptical. I think it--no, I think when you give somebody the stature of Alan Simpson and Erskine Bowles, and you put together a first-class committee and they work very, very, very hard to get a compromise that 11 of the 18 sign onto when they have vastly different political beliefs, I think you ought to take it pretty seriously. And the real question isn't the 61 billion now or so, the real question is whether right now you're willing to say, `Here is what we're going to do so that these promises'--where--you've really got to start modifying promises you've made for the future, or you've got to admit you're going to inflate your way into solving those problems. But we really haven't done that.

CARL: So you are not--you...

BECKY: Does that mean...

CARL: I was going to--just a quick follow-up, Becky.

BECKY: Go ahead, Carl.

CARL: You are--you're not worried about spending cuts, shrinking government expenditures, taking a big bite out of GDP, that the more important--the more important motive is the long-term solution, right?

BUFFETT: I think the difference between having 10 percent of GDP as your deficit and 9 percent is not going to be the difference in a recovery going on. But incidentally, I have some thoughts on taxes, too, I mean, in terms of the distribution of--there--if you look at the top level people in the country, people like me, I mean, we are paying our lowest tax rates in a long, long time, at--and, well, really forever. And so I think there actually could be something done on the revenue side, but it would be at the very top levels. I mean, I'm not talking 250,000, I'm talking people of incomes a lot larger than that. But I don't know whether you can actually see this, it's the one thing I brought along. But--well, I guess I brought two things along, since I pulled out the wrong one. Here's a table, the IRS puts it out, and if you go back to 1992...

BECKY: Here, I'll take that.

BUFFETT: If you go back to 1992 at the bottom, you'll find that the--of the 400 top income tax returns filed in the United States, I think the income was around 45 million per person, and now in the last year shown there it's 340 million. Think of that, from 40 million to 340 million, while the average American worker was going no place.

BECKY: I think it's down here.

BUFFETT: Now, if you go to the last page there...

BECKY: The last page?

BUFFETT: Yeah. You'll see the tax rate of those same four--not--of the 400 each year, over on the right-hand side, it starts at around 26 or 28 percent and it works its way steadily down to 16 percent. So while these people were having their incomes on average go from 40 million a year to 340 million a year...

BECKY: (Unintelligible)

BUFFETT: ...their tax rate was going down from 26 to 16. And believe me, that is not the experience of the average American. So there are things that can be done, and in my view should be done, and they will not slow down the American economy at all.

BECKY: You know what? Let me ask a question from the...

JOE: Yeah. Four--that won't be enough--that won't be enough money...

BECKY: Go ahead, Joe.

JOE: ...right, Warren? And you said that. Because they--it's got to--you got to go to the middle class or--if you're going to do it on a--on the revenue side, on the--I mean, it would help a little, but you need to go down to maybe 250,000 or even below that to really make a dent if you don't address the spending side, right?

BUFFETT: Well, you can do tens and tens of billions on people with a million and up--and up of income, but you--but the bigger thing actually over time--but you have to say--you have to do it now. I mean, just saying, `Well, we're going to solve this in five years or 10 years,' yeah...

JOE: We...

BUFFETT: You really have to do something about the promises you've made on spending because we're--it isn't--if it doesn't happen in 2011, it isn't going to happen in 2012 and it isn't going to happen...

JOE: I mean, it's--yeah. It's entitlements, Warren. And there's a--there's a piece today...

BUFFETT: Yeah, sure.

JOE: ...I think **it was in Politico**, people in this country...

BECKY: Yeah. In the **Tarrance Group** poll, right?

JOE: Yeah. People still think...

BECKY: The--yeah.

JOE: ...that you can cut waste and save, or they think you can cut defense, that we're spending all the money on defense. And it...

BECKY: Here's the numbers on the...

JOE: Yeah. What is it, Beck?

BECKY: The numbers on that poll that Joe's referencing is a majority of voters incorrectly believe the federal government spends more on defense and foreign aid than it does on Medicare and Social Security.

BUFFETT: Yeah.

BECKY: Sixty-three percent of people they polled thought that. Another 60 percent incorrectly believes problems with federal budgets can be fixed by just eliminating waste, fraud and abuse.

BUFFETT: Yeah.

BECKY: And it's not just casual beliefs on this. Forty percent of them strongly agree with these beliefs. Less than half of them, just 44 percent, believe that Medicare, Social Security are the major source of problems for the federal budget. Only 49 percent disagree. So what--how do politicians deal with poll numbers like that?

BUFFETT: Well, they deal with it by ignoring--essentially ignoring the problem. I mean, it's the same problem you had with state and municipalities on pensions. It was so easy--it was easy for General Motors back in the '60s to promise pensions and health benefits that later, you know, brought the company to bankruptcy. It's--it was easy for state and municipalities, you know, in--when they were negotiating contracts 20 or 30 years ago to put in cost of living adjustments and retirement after 20 years and back-end loading in terms of the last few years of employment. And all of those things and those promises come due so much later, long after the politicians left office, that it's a tremendous problem. But the future does arrive. And when the future arrives and you've made a lot of promises, you're either going to break the promises, you're going to raise taxes dramatically, or you're going to inflate. And basically, I think...

BECKY: So wait a second. Are you on the side of some of the Republican governors right now who are saying, `We can't afford to keep up with the promises we've made, we certainly can't continue these promises down the road,' and, in some cases, as in the case of Scott Walker, saying, `We need to get rid of collective bargaining as a result'?

BUFFETT: Well, I think--I don't want to--I'm not going to say about the collective bargaining. I do think that many states and municipalities--including Omaha, we just have had this--have made promises on benefits that really can't be fulfilled if you continue to keep making them. I think it's--listen, I would identify with the municipal employee who said, `Look, if you made the deal with me. I mean, you know, I came to work here because you said I was going to get this.' So--but I--the one thing I think you do is you quit making new promises. I mean, you may--you may have--be able to fulfill the ones that you've got up to this point, but you say, `Look it, this is going to bust us. And I'm going to make no more new promises.' And, you know, that's a tough thing for a politician to say.

JOE: Warren...

BECKY: What about asking...

JOE: If the public employees at the state and local levels are installing the people that give them the benefits through collective bargaining, maybe that's something you need to change.

BUFFETT: Well, I--yeah, but you could say every constituency sort of votes its own interests. I mean, you know, there--you've got people--you've got the rich capitalists who are trying to keep down the rate on capital gains, and...

JOE: Yeah, but those--but those--yeah, but those companies can go bankrupt. I mean, the private unions are negotiating with...

BUFFETT: Yeah.

JOE: If they get too much, they know that they won't have a job anymore. The others are negotiating--or they're aligned against the taxpayers. The states and the local municipalities can never go bankrupt. So they--you know, that's why there's no reason for them to mitigate their demands, right?

BUFFETT: Well, people are going to make the best deal they can. I mean, when you--you know, when you come up to negotiate your next contract with CNBC, you'll try and make the best deal you can. But you've got to have people on both sides--and hopefully you've got people on both sides that are mathematically intelligent. And, of course, the big problem, you know, with pensions, with postretirement medical care and all of that, is that the guy that makes the promise is not the guy that has to make the payment. Yeah.

JOE: You saw--Welch yesterday, Warren, brought--and it was in the Journal, too, brought up a speech given by Corzine--Governor Corzine in 2006 to the public unions that said, `We are going to fight for a better set of benefits for you.' He was the guy giving the benefits to the public--how do you negotiate with someone who's giving a speech saying, `We're going to give you'--and he knows that that might help him get elected the next time, having the public unions on his side?

BUFFETT: Yeah. Well, I haven't read that speech, but if it says what you said, it was a mistake. It was a big mistake. I--yeah, and not only that, but they use unrealistic assumptions even in determining how much they have to put in the pension funds to meet the obligations. I mean, the pension fund assumptions of most municipalities, in my--in my view are nuts, you know. And--but there's no incentive to change them. I mean, it's much easier to get a friendly actuary than it is to face, you know, an unhappy public.

BECKY: Well, so who's right? Because this has gotten to be such a huge debate, and you have two sides that are painting two very different pictures and using two very different sets of numbers to say how bad of a situation different municipalities, different states are in at this point. Who do we believe? Is there a set of numbers that tells the absolute truth?

BUFFETT: Well, I--actually, I've seen some pretty good numbers on that. But the--I would say that when they have pension assumptions that assuming they're going to earn 8 percent or something like that when bonds are yielding what they are now, you know, that's crazy. And...

BECKY: I told somebody that who deals with pension funds a couple of weeks ago, and they said, `Well, you're just wrong because if you look at where things could go over the next 10 years, you're just wrong.'

BUFFETT: Yeah.

BECKY: What's a safe assumption for pension returns?

BUFFETT: Well, I use--we're required, with our utilities, to use certain pension assumptions I don't want to use. But we've used about as low as--anyway, but I think this. I think that--well, I think it's nonsense, for example, when a company has subsidiaries in Europe and then they have them here, and they have an assumption for their pension fund in Europe that says we're going to earn 4 percent over there and we're going to earn 8 percent in the United States. I would say let's give the money to the United States. The pension fund accounting has been terrible over the years. And many managements, I don't think, understand it very well themselves, and many, you know, in a sense prefer not to understand it. You know, they care about their own pension, too.

We could--we could use a real overhaul of pension assumptions in this country. There's been some of that, but I've been writing about it for years. You know, it--nobody's really got an incentive to do it, you know, that's one of the problems. But...

BECKY: Mm-hmm. But it sounds like you do have some sympathies with some of the Republican governors who are trying to make slashes.

BUFFETT: Well, I have sympathy for anybody that's trying to deal financially today with a whole bunch of promises made by somebody years ago.

BECKY: Yeah.

BUFFETT: But I also have sympathy for the guys that said, `Listen, I took the job because of those promises.'

BECKY: Sure. Right. And 40 years later, these are the promises that were made.

BUFFETT: Yeah.

BECKY: What about the idea of asking state employees to play***(as spoken)***20, 30, 40 percent of their health care costs from here on out?

BUFFETT: Yeah. Well, some of them--actually, there's more contributory payments into pension funds in the--in the public arena than in the private arena. If you look at the old...

BECKY: I mean in health care, in health care situations.

BUFFETT: Yeah, well...

BECKY: There's a lot--that's where some of the sticking points are, too.

BUFFETT: ...that's changing the promise. You know, and I--and it's very tough. But I think we have done that in some of our private plants at Berkshire.

BECKY: Mm-hmm.

BUFFETT: And I think that--but when you're doing it, you're breaking a promise. I mean, people worked for 30 years in an auto plant or something of the sort, and they said you're going to have your health care taken care of when you're--when you're out of here. And then if you say you're going to pay 30 percent of it, that's--that is changing the game somewhat. I think absolutely they ought to change the game on--from this point forward, I mean, in terms of hires they're making and, you know. And if somebody wants to leave the public sector because now they're not going to get benefits from this point forward because they--fine, let them do it. But I--every year that ticks away on this stuff, you know, the obligation gets larger.

CARL: And, Warren, just on that...

BECKY: Mm-hmm. Carl:

CARL: ...I wonder, I mean, the problems we're talking about are so huge, so structural, right, so intractable, how do you reconcile them with the optimism in your letter, and the notion that America's best days are ahead?

BUFFETT: Because...

CARL: Because a lot of the people who read the letter and are skeptical of markets, skeptical of government, say the points you're making prove that we may not actually be able to win this time.

BUFFETT: Oh, we'll win. We'll win. I mean, bear in mind this: You can make promises about what will happen in 2020 to somebody, but you--we can't eat the food that's going to be produced in 2020, we can't use the cars. As long as the economy grows, we will have a larger pie. The problem is we've promised so much of that pie away to different people. But as long as the pie grows, you know, overall the country will do well. We'll have enormous tension between various classes of people. But if you go back to when I was born in 1930, just look at what you could've predicted. You could've predicted, you know, that stocks would go down--from the moment I was born, they'd go down another 75 percent. You could predict 25 percent unemployment. You could predict a surprise attack, you know, that looked like we were going to lose the war in 1941. All of these things happened. And what happened in 1941? You had an economy that'd been kind of moribund through the '40s--or through the '30s, and everybody went back to work and we were turning out battleships, we were turning out planes.

This country has enormous potential, and we will be turning out more goods and services per capita five or 10 years from now than we are now. The problem is whether we've overpromised those to too many parties. The pie will get bigger, and that is a huge advantage over time. And it just means that the members of the family fight over who gets how much of the pie, and maybe part of that pie has been overpromised to people. But the pie getting larger solves a lot of things; and it solved things from a couple hundred years in this country, and it'll continue to do so.

BECKY: Warren, we got lots and lots of questions that came in from Berkshire shareholders, from viewers. We also got one that came in from (Pimco's) **Mohamed El-Erian**, who I know you're friends with, too. He asks a broad question that talks about this high unemployment rate. Let's call this up right now. It's, "The persistence of high unemployment and, within that, large youth unemployment, is leading some to worry about skill atrophy, expertise mismatches and lower future productivity. So how valid are these concerns? And if they are valid, what should the government and companies do to try and counter this trend?"

BUFFETT: Yeah. Well, actually, productivity's been terrific in the last few years.

BECKY: Mm-hmm.

BUFFETT: I mean, that's the reason that we are doing a lot more business than a year ago and we only have 1 percent more employees. We're--productivity has improved very significantly. And, you know, that's--that--if productivity hadn't improved, though, we'd have--we'd have less unemployment right now.

BECKY: Mm-hmm.

BUFFETT: But productivity is great over time. It's terrible for the guy that loses his job because somebody's figured out a machine that does it better, given time, but we want gains in productivity. They give us more output. More output is what really solves problems over time. We want more output per capita. Then we'll fight like hell about who gets it, you know. And the rich people say, `Well, we don't want you to take any of that away from us.' And other people say, `We've been promised it.' And you'll have all these fights about it. But having more output solves a lot of thing. A family that has greater and greater income may still have fights within the family about who gets to spend it, but it's--those fights are a lot easier to solve than if the income is shrinking.

BECKY: Let me ask you a question that was sent in by a viewer. This is--control room, I'm jumping out of order--number six from Mark in Illinois. And this was written tongue in cheek, but he says, "You and Bill Gates have recently been trying to get extremely rich individuals to give half their wealth to charity. I was wondering about all the concern over our nation's serious debt issue. If the US citizens on the **Forbes 400 list** gave half their wealth to paying down the debt, how much of a dent would you put in it?"

BUFFETT: Well, the Forbes 400 had, I think, about 1.3 trillion last year, so that'd be about 650 billion. So in terms of the--in terms of the net debt, it would knock off about 7 or 8 percent.

BECKY: So you are talking about a serious dent with that. And I guess the question he maybe is asking in a more roundabout way is, why not give that money to the government instead of private charities?

BUFFETT: It would--it would--it would take about--it would wipe out about six months of the deficit, and then we'd back--we'd be back where we started. I do think that that group should be paying much higher taxes than they are, you know, and I think they--there should be higher estate taxes, too. But I don't think--I don't think you should have a tax system based on free will contributions. I'm not sure that would be the most successful tax system ever devised.

BECKY: OK. All right, well, we do have more to come. In fact, when we come back, we'll have a final go-round with Warren Buffett, a rapid-fire session to get through some of your last questions, and ours as well. *Squawk Box* will be right back.

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BECKY: Welcome back, everybody. It's time for a final round with Warren Buffett, so let's get right to some of the e-mails that you've been sending in. And, Warren, the questions that came in this year were extremely thoughtful. One that came in from Duane in Tribune, Kansas, writes in, "What do you think about the rapidly increasing prices paid for farmland across the country, and where do you see this trend going?"

BUFFETT: Well, **my son** is the farmer, and I'm not the big expert on it. But obviously, commodity prices have gone up significantly. And if they...

BECKY: Mm-hmm.

BUFFETT: If that represents a permanent factor, I mean, if you're really talking about $7 corn and $12 soybeans and so on, it makes the farmland worth more money. And of course, farmland does become more productive year after year. So, you know, a farm is a decent long-term investment. Generally they've sold on the fairly low yield basis, but good farmland is not a terrible investment.

BECKY: Yeah. You've seen prices crash, though, for some of these things very rapidly before.

BUFFETT: I don't know what will happen with commodities.

BECKY: Yeah.

BUFFETT: But what you're seeing with commodities to some extent is the--is the converse to the--to paper money. I mean, it...

BECKY: Mm-hmm.

BUFFETT: If money becomes worth less and less, copper and cotton and soybeans are going to be worth more and more, measured by dollars.

BECKY: Mm-hmm. Let's get to another question. Lindsay writes in from Cedar Rapids that, "Risk managers within many firms got it wrong, as evidenced by the financial failures and required government bailouts. Beyond the answer of maintaining a strong capital position like that of Berkshire Hathaway--obviously, not every company has the balance sheet of Berkshire--what's the most important advice you can provide with regard to risk management so that companies don't repeat the financial failures of the recent past?"

BUFFETT: Yeah, Well, financial companies always have--the CEO has to be the chief risk officer. And I think the boards of directors should have compensation policies that make sure that if the CEO fails in the risk job that that CEO goes away poor. I mean, I think that it's been disgusting, frankly, with huge financial institutions having--needing government assistance, all the disruption that's caused both in the institutions, the economy and everything else, and people walking away rich. So incentives matter enormously, and incentives have all been to the upside with managers. I mean, you have stock options, all of these things that if it works out they do great, and if it doesn't work out they still are very rich and they leave and, you know, it's goodbye, and then you need government money. So I think boards have been very derelict in the big financial institutions in the way they designed compensation packages. But they've been encouraged to do so by comp consultants and just by prevailing practice.

BECKY: Can we count on anything the government may do or has tried to do to this point with stopping that, or is this just always going to be a ticking time bomb?

BUFFETT: Well, the two big problems of the period were leverage and bad incentives.

BECKY: Mm-hmm.

BUFFETT: They've done some things about leverage, quite a bit. And the temptation is always just to leverage up more and more if you've got a financial institution. If you're--if you've got a government guarantee behind you, in effect, which the FDIC has been, or with Freddie and Fannie, you can print money. And when people get the ability to print money, they enjoy it. And then when you get the incentives wrong so that if things work they get paid off incredibly, and if things work they still get paid off incredibly, it--you're going to--you're going to have people do crazy things. So you got to have the incentives right, and you've got to have some limits on leverage.

BECKY: All right, we've only got...

BUFFETT: And we've made some progress on that.

BECKY: We have made some progress.

BUFFETT: Yeah.

BECKY: We've only got a few minutes left, but I'm hoping you can solve the problem with Fannie and Freddie and home mortgage issues while you're here. You did write about that in the shareholders letter this year.

BUFFETT: Hm.

BECKY: You wrote about your experiences through Clayton, and why Clayton has not had the types of bad loans that we've seen so prevalently through other areas in home mortgage.

BUFFETT: Yeah. Yeah. Well, we lent to people who put up reasonable down payments, and we verified their income. And these were people living on the edge, in many cases. I mean, these were not people with great FICO scores, everything, but they were buying homes not to flip them, they were not refinancing to try and take the money out to--they were--they were--they were keeping their monthly payments in line. And we were keeping the mortgages. We kept 11 billion or so of mortgages, three--200,000 of them. So we cared whether the people were going to pay us in the future. If you have a government-guaranteed mortgage, you know, you don't care whether the person's any good or not. I mean, you know--well, you care whether the government's good or not, but you don't care. So when Freddie and Fannie guaranteed mortgages, the only person that could care was Freddie and Fannie. The people that bought them knew they were going to get paid because they knew, in effect, they were government guaranteed. Now, having government guarantees in there brings down the cost of financing to rock-bottom levels. I mean, it does reduce the cost of homeownership because you've got a government-guaranteed obligation.

I think going forth in the future, you may need some system where private guys--guys like me, guys like JPMorgan or whomever--have large mortgage guarantee operations backstopped by the federal government. So you get the benefit of the cost of that, but you have the discipline of the private market in terms of pricing these things and determining what you take and don't take. And you get it away from congressional pressure.

BECKY: So that nothing like a Fannie or a Freddie exists?

BUFFETT: You--I don't think you necessarily need Fannie or Freddie, but what you might--you might--let's just say you had a company capitalized at $10 billion and we own it. We couldn't take any money out of it for at least five years. And we guaranteed mortgages, and we took 80 percent of the guarantee, and the federal government took the 20 percent. But the government also said if for any reason this $10 billion company couldn't pay, they would pay. Now, we would have an interest in getting decent loans, we'd have an interest in getting paid reasonably. The government guarantee would probably never be called on, it would keep the price low. So you get the discipline of the private market, and you wouldn't have a whole bunch of lobbyists coming around to us and saying, `We want you to give money to anybody that shows up and, you know, can show a faint pulse.'

BECKY: Do you--do you think that that's actually a likely scenario, though? Do you think that there's the political will or desire to get the government entirely out of it?

BUFFETT: Well, I think--I think there's desire to get some answer to Freddie and Fannie. They all want to sweep it under the rug. It's the only thing, incidentally, that's cost the government a lot of money out of this whole panic.

BECKY: Right.

BUFFETT: The banks have pretty well paid things back, the FDIC didn't have to come up for any money, and the--even General Motors is doing reasonably well. So--AIG is going to get the money paid back. The big losers are Freddie and Fannie. And they were the ones run by government, and they were subject to government pressures. So I think that there's a desire for a solution that keeps the cost down--which government guarantees, too--but also imposes market discipline.

JOE: Hey...

BECKY: Joe:

JOE: Hey, Warren, is too big to fail--we keep hearing that it--that that wasn't fixed, that obviously the banks have gotten even bigger, the big ones. If you get their--the leverage better in order and make them, you know, keep more capital, and if you get the compensation or the incentives in order, is it OK to--in a capitalist system, to have things that're too big to fail, that would be bailed out? I--it seems like that's still a problem and we still have it.

BUFFETT: Yeah, you don't--but you don't want to bail out the managements. I mean, you know, in the case of--you know, Fannie and Freddie stockholders lost all their money. You know, the--AIG and Citi, you know, they're down--I don't know whether they're down 80 percent or what. The stockholders at WaMu lost all their money. The stockholders at Wachovia lost a very high percentage of their money.

JOE: Yeah.

BUFFETT: So they failed. Now, the--they didn't fail in the sense that you had a liquidation sale.

JOE: Right.

BUFFETT: And we tried that with Lehman and that didn't work out too well. There will always be, in my view, places that're too big to fail. But you could make it so that the incentives are that the people running them, if they...

JOE: Right.

BUFFETT: ...if the institution fails, they fail. That's enormously important, in my view.

CARL: Warren, I don't know if you saw...

BECKY: Carl:

CARL: I don't know if you saw the Oscars this past weekend, but the winner of Best Documentary was this film called "**Inside Job**," which paints a very dark picture of the crisis. And in his acceptance speech, the producer said that the--three years after a crisis that he says was caused by a massive fraud, in his words, not a single executive has gone to jail, and he says that's wrong. Is it?

BUFFETT: Well, I would say that what's really wrong is that the chief executives of most those companies walked away extraordinarily rich. Now, whether they should've gone to jail or not's a--you know, that's a question of statutes and whether you could prove it and so on. But I think the idea that they were allowed, by the terms of their contracts that they'd made and the boards of directors allowed to be put into place, that they could walk away with hundreds of millions of dollars while the country suffered the consequences of really some terrible actions. Like I said, I don't know whether it should put them in jail, but it should--it should not put them in Cadillacs.

BECKY: And, Warren, just wrapping things up again quickly, you are incredibly optimistic not only about America's futures, but about the stock market's future. Is that fair to say?

BUFFETT: I think--I think--I would--certainly fair to say that I would--if you asked me for owning equities vs. fixed dollars, either long-term or short-term...

BECKY: Mm-hmm.

BUFFETT: ...governments or anything, I know--I don't think there's a chance that governments will outperform equities over any, say, 10 or 20 or 30-year period. So I...

BECKY: Even with the big runs we've seen recent--oh, you're looking over the longer term. Yeah.

BUFFETT: Yeah, over the longer--I have no idea what'll happen in the next year.

BECKY: OK.

BUFFETT: But the--but I think it would be very, very foolish to have your money in long-term fixed-dollar investments or short-term fixed-dollar investments when you could--if you had the ability to own equities and own them for a--and hold them for a considerable period of time. You shouldn't own them with borrowed money.

BECKY: OK. Well, Warren, again, we want to thank you very much for your time here today, for being so generous with your time and taking so many of our questions and so many of our viewer questions as well.

BUFFETT: OK. I hope your viewers come out and look at the Durham Museum sometime, you know, enjoy it.

BECKY: That's right. Again, we're at the Durham Museum, for anybody who missed it. We're standing in front of the Ernest Buffett grocery store. Ernest Buffett, of course, was Warren Buffett's grandfather. And if you haven't read it already, check out the annual letter that he wrote. It tells you a little bit about a lesson that his grandfather taught him. But again, Warren, thank you.

BUFFETT: Thank you.

BECKY: Appreciate it. And, Carl, we'll send it back over to you.

CARL: OK. All right, thanks to Warren from both me and Joe.

JOE: Thank you, Warren. Yes.